FARM CREDIT ADMINISTRATION
COOPERATIVE DIVISION
WASHINGTON, D.C.

PRINCIPLES OF ACCOUNTING AS APPLIED TO THE COOPERATIVE COTTON GINNING BUSINESS

BY

OTIS T. WEAVER,
ASSOCIATE AGRICULTURAL
ECONOMIST

A Preliminary Report

RESEARCH, SERVICE AND
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By
Otis T. Weaver
Associate Agricultural Economist
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CONTENTS

1/ Credit is due the following for helpful suggestions in the preparation of this manuscript: O. W. Herrmann and J. T. Foster, Cooperative Division, Farm Credit Administration; J. D. Lawrence, S. U. Baxter, and P. L. Cannon, Central Bank for Cooperatives; J. H. Harper and Hollis Beall, Houston Bank for Cooperatives.

INTRODUCTION

The principles of accounting are rather definite regardless of the type of business to which they might be applied. Principles of accounting or bookkeeping for cooperative cotton gins do not differ from those of other business organizations. It is true that many and varied types of accounting forms have been designed in an attempt to simplify cotton gin bookkeeping, but the same principles must be used with each if an accurate "accounting" of the gin's business is to be obtained. For the most part, these forms differ in arrangement rather than in principle. Some are more convenient than others for recording the business transactions of a gin, but the same final results will be obtained regardless of the type of forms used, if recognized and basic principles of accounting are used.

Recent studies of the accounting systems of some two hundred cooperative cotton gin associations in Oklahoma and Texas have indicated a need, not for a new or an additional accounting system, but for some clarification of the principles of accounting and their application.

The purpose of this report, therefore, is (1) to outline some of these basic principles of accounting, (2) to show how these principles may be applied to any practical set of forms, and (3) to point out some of the benefits that will be realized from the use of these principles.

Adequate records are even more necessary for a cooperative organization than for some other types of business organizations. Each member has a right to know the true financial condition of the association at least once each year; the manager and the members of the Board of Directors should know the financial condition at all times. The ability and training necessary to keep a set of gin books in such a way as to furnish this information when needed is neither greater nor less than that for other small corporations or businesses doing a similar volume of business in an equal period of time.

DIVISIONS IN ACCOUNTING RECORDS

Any system of cotton gin accounting naturally divided itself into four rather distinct groups of records:

(1) Original records - These include stubs or carbons of individual transactions such as scale tickets, checks issued, cash receipts, sales or purchase invoices and statements, bills of lading, drafts, deposit slips, etc.

(2) Original entries - The book, or books, wherein the original records are entered in the order in which they occur, commonly called the JOURNAL.

(3) Final Records - The book, or books, wherein the journal entries are transferred, and grouped into the classified accounts, commonly called the LEDGER.

(4) Statements - Profit and Loss statement, and Balance Sheet, both monthly and annual.

The first group, Original Records, is the basis of information that goes into the books. The second and third groups, Journals and Ledgers, are the actual books. 2/ All transactions are first entered in the Journal and then transferred (posted) to the Ledger. The fourth group, Statements, is the information that comes out of the ledgers.

Original Records

Carbon duplicates or stubs of scale tickets, carbons of ticket or invoices of sales, stubs or carbons of checks issued, receipts for cash received or paid out, and other primary records of transactions made by the gin, together with copies of invoices received by the gin for things purchased from other firms or individuals, make up the original records or memoranda from which all the accounting records are started.

As a rule these records are quite generally, though sometimes carelessly, made out at most cooperative cotton gins. Each of these original records should contain complete information as to (1) the name of the person or firm with which the transaction is made (2) the date and (3) the quantity, price, amount, and terms of the transaction. A strict observance of this rule will result in much less effort being required to record this information on the Journal. As will be pointed out later, practically all of the figures recorded on the Journal will be copied directly from these original records.

Blank forms for all of the necessary original records such as scale tickets, seed-checks, expense check, bale cotton checks, cash paid out tickets, cash received receipts, sales tickets, invoices, etc., may be printed according to your own specifications, but it will usually be less expensive and equally as satisfactory to buy many of these supplies from reliable printing firms that carry them in stock already made up.

2/ Kerr, W. H., 1915, Cooperative Organization Business Methods. U. S. D. A. Bul. 178, Page 3.

A suggested list of the forms most generally needed are as follows:

(1) Ginning scale tickets.
(2) Seed rebate checks.
(3) Expense checks.
(4) Bale cotton checks or bills of exchange.
(5) Cash paid-out tickets.
(6) Cash received tickets.
(7) Sales tickets.
(8) Weekly payroll book.

All of the above forms with the exception of the payroll book should be in duplicate (or possibly some of them in triplicate) in order that exact carbon copies may be made rather than re-copying the same information on stubs.

Some gins use only one form of checks for all purposes. The transactions are usually more easily recorded, however, if separate check forms are used for seed rebates, cotton purchases and expenses. The advantages of using different forms of checks for different purposes will be explained more fully in later sections dealing with the recording of these transactions on the Journal.

Original Entries or Journals

All books of original entry are nothing more than an expansion of the ordinary General Journal which has only two columns - a debit and a credit. The Journal is referred to by various names, such as (1) Cash Book (2) Daily Gin Report (3) Ginning Journal or Register (4) Sales Journal (5) Purchase Record (6) Check Register, and perhaps others. However, regardless of the name by which known, they are all a form of the Journal; the book, or books, in which the business transactions are recorded each day in the order in which the transactions occur. Some gins use only one Journal; other gins use several. The number of Journals that will be needed depends primarily on the volume of business and the number of products bought and sold. If custom ginning and handling cotton seed make up practically all of the activities of a gin, one multi-column Journal will probably be sufficient.

Single Journal systems differ only in the arrangement and number of the several debit and credit columns. Systems having several Journals differ as to the particular transactions recorded on each as well as in the arrangement of the columns. Regardless of whether a Journal form has two columns or twenty or whether one or several Journals are used, the principle is exactly the same; the amount of every transaction is recorded twice - once as a debit and once as a

credit. Journals having numerous columns have been devised for convenience in order that similar transactions may be recorded in specific columns to facilitate the addition of items in these columns to secure one total to be transferred periodically to the Ledger. The number of Journals used or the arrangement of the several columns on any one Journal are of much less importance than the principles used in making the original entries on any of these Journals. That is, if the proper accounts are debited and credited when each transaction is recorded, the final result will be exactly the same regardless of the arrangement of columns on any one Journal or the number of Journals used.

Most of the printed multi-column journal forms on the market are known as "Daily Gin Reports". This record - in reality a journal - has been abused by printing firms and individuals who have attempted to design and sell a "fool proof" system to meet the needs of every cotton gin. Most of these so-called systems have some merits and do not differ essentially in the results that will be obtained, if the entries pertaining to the transactions are properly made. Stock forms of these Journals may be purchased from a number of firms specializing in cotton gin records. Care should be taken in selecting Journal forms in order that the number as well as the arrangement of the columns are adapted to the needs of the gin.

As a rule, the most satisfactory Journal system for any gin is one with which the manager and bookkeeper are familiar. However, for the benefit of those gins desiring a one Journal system and having no particular sheet in mind, Form I is presented as suggestive for the arrangement and headings of the columns. Special attention is directed to the location of the "Name" and "Explanation" columns in the center of this sheet. 3/ The arrangement of this form is such that all debit columns are to the left and all credit columns to the right of the "Name" and "Explanation" column. This distinct separation of debits and credits will be found to be of considerable advantage in recording the transactions in the proper columns.

Such forms may be ruled and printed at any printing or newspaper office. Care should be taken before having any appreciable quantity of such forms printed, that the necessary number and arrangement of columns are anticipated. In order to be sure of the number of columns and the headings desired, it will probably be advisable to purchase columnar accounting sheets, having twenty-five or more columns, and write in the desired headings for each column until a satisfactory arrangement is decided upon. These columnar sheets, put up in pads, may be obtained from any reliable office supply firm.

3/ Swarthout, A. V., and Boxell, J. A., 1921. A System of Accounting for Cotton Ginneries. U.S.D.A., Bul. 985. (The above Journal arrangement was originally suggested by this bulletin.)

If a considerabl amount of cotton is bought by the gin, a separate Cotton Purchase Journal may be provided and the columns for bale cotton purchases eliminated from Form I. In such a Cotton Purchase Journal would be recorded the date, name of customer; the number, weight, price, and cost of each bale purchased; any items deducted from the purchase price of the bale such as ginning; and the number and net amount of the check or bill of exchange issued in payment. The arrangement of this Journal, if used, should follow that suggested by Form I. That is, the date and name columns should be placed in the center of the sheet with the columns for bale number, weight, price and amount (debit items) to the left of the date and name columns, and with a column for deductions such as ginning, and columns for the check number and net amount of the check (credit items) to the right of the date and name columns. A suggested arrangement for this Journal is as follows:

COTTON PURCHASE JOURNAL

Bale No.	Wt. of Bale	Price	Amt. Dr.	Date	Name	Accts. Rec. Credits	Check No.	Amt. of Checks

//

If the amount of cotton purchased is small these transactions may be entered on the journal represented by Form I. The only advantage of using a separate cotton purchase journal is to separate this type of transactions from ginning proper, and to facilitate the checking of cotton purchases when a large volume of bales is bought by the gin.

Final Records

The General Ledger is the principal "final" record. Unfortunately the General Ledger is the one record that is not kept in the gin office by many cooperative cotton gins. In the LEDGER, similar transactions are grouped together, whereas in the JOURNAL the transactions are recorded by date, or in the order in which they occur. No entries are made in the Ledger except those previously recorded in the Journal.

The GENERAL LEDGER contains one page (Form II) for each of the different accounts used by a gin during the course of a years business. Any standard two-column ledger will be found to be satisfactory; however a loose-leaf ledger is more desirable than a bound book.

In addition to the GENERAL LEDGER, certain subsidiary ledgers will also be needed. For example, the GENERAL LEDGER will show in one account a total of all capital stock or working capital outstanding, while a stock ownership ledger will be needed in which the amount of stock owned by each member will be shown on a separate page. The sum of the amounts on the several pages in the stock ownership ledger will exactly equal the "total stock outstanding" account in the GENERAL LEDGER.

If charge accounts are handled by the gin, an "Accounts Receivable" ledger will be needed to contain on separate pages the accounts with individual customers. The total of these individual accounts will equal the "Accounts Receivable" account in the GENERAL LEDGER.

Another subsidiary ledger that should be kept is one in which year after year a record is kept showing the dividends declared and/or paid to each member or patron. This book would be called the "Dividends Ledger", and would have one page for each member or patron.

The Customers Ledger, the one and only ledger kept by many gins, is likewise only a subsidiary ledger. In this ledger, by using a separate sheet for each customer, a complete record of the ginning business done by each customer with the gin is summarized. The sum of certain items from all of the customers' accounts will equal corresponding control accounts in the general ledger. For example, the sum of ginning tolls and wrappings for all the customers will equal the "Ginning revenue and wrapping" account in the GENERAL LEDGER, Likewise, the amount of cottonseed sold by the customers will equal the total of the "cottonseed purchase" account in the General Ledger. Pounds of seed cotton ginned by all the customers as well as pounds of seed sold to the gin may similarly be verified. Since the information recorded in the Customers' Ledger is copied directly from the carbon copies of the scale tickets, some bookkeepers have successfully substituted an envelope filing system to take the place of this ledger. That is, an envelope for each customer is filed alphabetically in a filing cabinet and a triplicate copy of each scale ticket placed in the proper envelope at the end of each day. This envelope system is quite satisfactory if care is taken to file each scale ticket in the proper envelope.

All of the subsidiary ledgers except the "Customer's Ledger" may be put, in separate sections, in the same loose-leaf binder with the GENERAL LEDGER and the same size and form of ledger sheet used for all, as a matter of convenience and economy. Since the page rulings for the customers' ledger will differ from that of the others, a separate loose-leaf binder for the customers' ledger will probably be needed. Bound volumes of customers' ledgers are very undesirable as it is often necessary to record the ginning business done with some large producers on two or more widely separated pages.

Statements

The Profit and Loss Statement together with the Balance Sheet (statement of assets and liabilities) is nothing more than an orderly grouping of the totals or balance of each of the accounts in the ledger. In the ledger, each account is on a separate page, and may have numerous entries. In the Profit and Loss Statement and Balance Sheet, each account is represented by one sum written on one line of the statement. This sum is the balance of the corresponding amount in the General Ledger.

Form III is a suggested arrangement for a Profit and Loss Statement. This form is not particularly different from those used by most cooperative cotton gins. Many bookkeepers tend to subdivide the revenue accounts into more departments than is shown by this form. For example, seed cotton and bale cotton are usually shown as two departments; Coal, Feed, etc., are frequently reported in as many groups; and bagging and ties is usually shown separate from ginning. It is entirely correct for these subdivisions to be made, but it is doubtful if much additional information is gained by too many subdivisions. This form provides for only one expense account for each department other than ginning proper. If it is desired to separate into several items the expenses chargeable to cotton, for example, it may be done, of course, but if that is done, the profit and loss statement will be much longer and therefore more difficult to understand. A profit and loss statement brief enough to be typed on one sheet of paper is desirable.

It is realized that a portion of some of the items of expense charged to ginning proper, as provided by this form, is really incurred in handling cotton, cotton seed, or other products. Since the amounts involved are relatively small, however, and no satisfactory basis for allocating these expenses to the different departments is available, they are shown as expenses of ginning proper. Since ginning and wrapping are the primary activities of a cotton gin, and other products are usually bought and sold primarily to attract ginning customers, very little error is introduced by charging these overhead items of expense to ginning proper. Any direct expenses incurred in the handling of any products should, of course, be charged to the expense account of that department. There is little reason to support the theory, however, that a portion of all overhead expenses such as Manager's Salary be prorated to the other departments.

The statement of Assets and Liabilities (Balance Sheet) illustrated by Form IV does not differ materially in arrangement from financial statements in common use by many cooperative gins. The Balance Sheet of a corporation is nothing more than an itemized statement of (1) what the corporation owns - its assets, and (2) what the corporation owes - its liabilities, and (3) its net worth accounts - Capital and Surplus. The distinguishing feature about a Balance Sheet is that the sum of the Assets always exactly equals the sum of the liabilities and the Surplus (undivided profits)

plus capital. If the obligation (liabilities) of a corporation, including, of course, the capital stock (or original working capital) which in reality the corporation owes to its stockholders as members, is exactly equal to the book value of its assets, there will be no Surplus Account. If the Assets are greater than the Liabilities and Capital, the difference will be the amount of the Surplus Account as shown in the Ledger or on the Statement. On the other hand, if the Liabilities are greater than the Assets, the Surplus Account, as shown in the Ledger (or on the Statement) will have a debit balance (a minus surplus), or in other words, will be a Deficit.

OPENING THE BOOKS

The procedure to be followed in starting a set of gin books depends to a great extent on whether the cooperative is just beginning, or has operated the previous year. If the cooperative is just beginning, it further depends on whether they build a new gin or purchase an old plant. If the cooperative has operated the previous year, it also depends on the condition and completeness of their books.

Suggestions for "opening the books", therefore, will be discussed under each of the following conditions:

(1) A newly organized cooperative building a new gin plant.
(2) A newly organized cooperative buying an old gin plant.
(3) A cooperative that operated the previous year or years and has a set of books or an audit that shows a complete and balanced statement of the assets and liabilities.
(4) A cooperative that operated the previous season, but does not have an audit showing a balanced statement of the assets and liabilities at the end of the previous season, but has only some miscellaneous unbalanced records.

<u>A Newly Organized Cooperative Buying a New Gin Plant</u>

After the cooperative has been organized and the charter secured, the first book entry to be made on the journal is to record the sale of the Capital Stock or memberships. Suppose $10,000.00 in stock was sold to fifty men, each of which took $200.00, paying half in cash and giving a note for the balance. The Journal entry (Form I) would be as follows:

JOURNAL

Sundry Debits Expl.	Amt.	Cash Dr.	Date 1935	Name	Explan.	Sundry Credits Explan.	Amount
Stock Notes	$100.00	$100.00	4-1	Mr. A	2 shares	Cap.Stock	$200.00
" "	100.00	100.00		Mr. B	"	" "	200.00
" "	100.00	100.00		Mr.C	"	" "	200.00
" "	100.00	100.00		Mr. D	"	" "	200.00
" "	100.00	100.00		Mr. E	"	" "	200.00
Totals:							
Stock Notes	$5000.00	$5000.00				Cap.Stock	10,000.00

It will probably be advisable if no other entries other than the sale of the stock be made on page 1 of the Journal. Since the account "Stock Subscription Notes" and "Capital Stock Issued" will not be frequent daily occurences, the Stock Subscription Notes would normally be entered in the Sundry Debit column and the Capital Stock issued entered in the Sundry Credit Column on the Journal. Assume that all the Stock ($10,000.00) has been sold, and each transaction recorded in the JOURNAL as illustrated above. This information would be "Posted" or transferred to the proper accounts in the General Ledger (Form II) by totals only, as illustrated below. Notice that the sum of "Stock Subscription Notes" and "Cash Dr." equals the total stock issued. That is, the debit items exactly equal the credit items.

The three General Ledger sheets would then have the following entries:

Page ________

CASH ACCOUNT

Date		Debits	Credits
4-1	Cash received	$5000.00	

Page ________

STOCK SUBSCRIPTION NOTES ACCOUNT

Date		Debits	Credits
4-1	Members Stock Subscription notes	$5000.00	

Page ________

CAPITAL STOCK ISSUED ACCOUNT

Date		Debits	Credits
4-1	Capital Stock issued		$10,000.00

The first thing to observe is that the sum of the items in the "Debit " columns from the several pages (three in this case) of the GENERAL LEDGER equals the sum of the items in the "Credit" columns. This balance or equality of debits and credits in the GENERAL LEDGER will always be maintained, since every business transaction made will have first been recorded on the JOURNAL or both a Debit and a Credit.

It will now be necessary to open a Subsidiary Stock Ownership Ledger in which one sheet will be used to record the stock issued to each individual stockholder. For example, an account for Mr. A. would be opened and the amount of stock issued to him ($200.00) would be posted to Credit column from line 1 of the Journal entry shown above. Similar accounts would likewise be opened for each of the other stockholders. The total of all these several accounts in the subsidiary Stock Ownership Ledger must, of course, be exactly equal to the total amount of stock issued as shown by the Capital Stock Issued Account in the GENERAL LEDGER.

The following is an illustration of one of these accounts in the Stock Ownership Ledger:

STOCK OWNERSHIP LEDGER

Name of Stockholder		Address	
		Debit	Credit
Date	Stock Certificate No.______		$200.00

//

Another subsidiary ledger "Stock Subscription Notes Ledger" will also be needed to record on a separate sheet the stock subscription note of each member. Of course, the notes themselves could be used instead of the subsidiary ledger, and payments made from time to time, recorded directly on the note, with a total of all payments entered through the Journal to the control account in the General Ledger.

To continue with the JOURNAL entries, assume that the following transactions take place:

(1) that the $5000.00 collected from the sale of stock has been deposited in the bank.
(2) that land costing $1000.00 was bought and paid for by a check.
(3) that the gin buildings have been built under contract, including all material and labor, at a cost of $5000.00 for which a note and mortgage was given in payment.
(4) that new gin machinery and equipment costing $14,000.00 installed was purchased, for which a check for $3500.00 and a note and mortgage for $10,500.00 were given in payment.
(5) that Office Furniture and Fixtures costing $100.00 was bought on open account from the Blank Office Supply Company.

These transactions would be entered in the Journal as follows:

JOURNAL

DEBIT COLUMNS				CREDIT COLUMNS	
Acct.	Amount	Date	Name and Explanation	Acct.	Amount
1st Nat. Bank	$ 5000.00,	4-1,	1st Nat. Bank Deposit,	Cash	$5000.00
Land	1000.00,	4-2,	Land Co., 1 City Block,	(Checks (Issued	1000.00
Buildings	5000.00,	4-3,	Building Co., Contract,	Mtg.Pay.	5000.00
Gin Machinery	14000.00,	4-4,	(Gin Mach.Co., Installed,	(Mtg.Pay. (Cks.Issued	10500.00 3500.00
Office Furniture	100.00,	4-5,	(Office Supply Co., , (Desk - Safe	Accts.Pay.	100.00

//

(In the above illustration of the Journal, the accounts in each case are named and all shown in the same column rather than placed in special columns, for convenience in making this illustration. Actually, such items as cash deposited, bank deposits, checks issued, etc., would be entered in special columns, as shown by Form I, and posted as totals rather than individual items.)

Attention is again called to the fact that the sum of the debit items equals the sum of the Credit items. All of the items posted from the left, or debit, side of the JOURNAL would be entered in the Debit column of corresponding GENERAL LEDGER accounts; likewise, all of the items on the right or credit side of the JOURNAL would be posted to corresponding Credit columns.

The GENERAL LEDGER sheets after the above Journal entries have been posted will be as follows:

Date	CASH ACCOUNT	Debits	Credits
1935			Page
Apr. 1:	Cash received	$5000.00	
Apr. 2:	Bank deposit		$5000.00

Date	STOCK SUBSCRIPTION NOTES	Debits	Credits
			Page
Apr. 1:	(Members Stock Subscription Notes)	$5000.00	

Date	BANK ACCOUNT	Debits	Credits
			Page
Apr. 5:	Cash deposit	$5000.00	
Apr. 5:	Checks issued (two checks)		$4500.00

Date	LAND	Debits	Credits
			Page
Apr. 2:		$1000.00	

Date	BUILDINGS	Debits	Credits
			Page
Apr. 3:	Contract price	$5000.00	

Date	GIN MACHINERY	Debits	Credits
			Page
Apr. 4:	Installed	$14000.00	

Date	OFFICE FURNITURE AND FIXTURES	Page
:	Debits	Credits
Apr. 5:	100.00	
:		
:		

/ /

ACCOUNTS PAYABLE

Date	(Office Supply Company)	Page
:	Debits	Credits
Apr. 5:		100.00
:		
:		
:		

/ /

MORTGAGES PAYABLE

Date	(Gin Machinery Co.)	Page
:	Debits	Credits
Apr. 4:		$10500.00
:		
:		
:		

/ /

MORTGAGES PAYABLE

Date	(Building Construction Co.)	Page
:	Debits	Credits
Apr. 3:		$5000.00
:		
:		
:		

/ /

Date	CAPITAL STOCK ISSUED ACCOUNT	Page
:	Debits	Credits
Apr. 1:		$10000.00
:		
:		
:		

/ /

The next step is to take a TRIAL BALANCE of the GENERAL LEDGER to prove that the postings from the JOURNAL have been correctly made. The trial balance of the above GENERAL LEDGER at this time would be as follows:

Trial Balance
April 5, 1935

Debits		Name of Account		Credits
$5000.00	:	Stock Subscription Notes	:	
500.00	:	Bank Account	:	
1000.00	:	Land	:	
5000.00	:	Buildings	:	
14000.00	:	Gin Machinery	:	
100.00	:	Office Furniture and Fixtures	:	
	:	Accounts Payable (Off. Sup.Co.)	:	$ 100.00
	:	Mortgages Payable(Gin.Mach.Co.)	:	10,500.00
	:	Mortgages Payable (Bldg. Co.)	:	5,000.00
	:	Capital Stock	:	10,000.00
$25600.00	:	Totals	:	$25,600.00
	:		:	
	:		:	

Since the total of the accounts having Debit balances ($25,600.00) equals the total of the accounts having Credit balances, the GENERAL LEDGER is in balance. It will be observed that the Cash account, in this case, does not appear in the Trial Balance. The reason for this is obvious, since the debit items in the cash account exactly equals the Credit item leaving no balance in this account. In other words all of the cash taken in has been deposited in the Bank leaving none in the cash drawer. The debit balance of the Bank account is the difference between the total amount deposited ($5000.00) and the amount withdrawn by check ($4500.00) or $500.00.

As a rule, the Journal entries explained above are by no means all that will be required in recording the original investment in land, building, gin machinery, office fixtures, etc. These Journal entries were given merely for simple illustrative purposes. In actual practice, numerous other entries will be required. For instance, there will be certain items such as cost of securing the charter; cost of drawing up articles of incorporation and by-laws; cost of capital stock certificates; and commissions or other costs pertaining to the sale of capital stock. These costs should be charged to an organization expense account.

In addition to the actual purchase price paid for land, there will be other items such as attorney's fee for examination of abstract of title and recording fees for having deeds and possibly other necessary papers recorded. Such items as these should be charged to the Land Account, as they are in reality an addition to the cost of the land, and not expense items.

It will also frequently happen that instead of having the gin buildings erected under contract for a fixed price, as assumed in

the first illustration, the Cooperative will buy its own material and employ its own labor for the construction of these buildings. In this case, each bill for material and each check for labor would be a part of the total cost of the buildings and not an expense item. Likewise, freight and drayage on building material, the cost of any excavation work, etc. pertaining to the laying of the foundations of the buildings, and other similar items would be a part of the cost of the buildings. The corresponding credit entries for any material purchased on open account or with a note would be to accounts or notes payable respectively.

In constructing the building, a common occurence will be for some stockholder, who has given his note in part or full payment for stock, to work on the construction of the gin building and let his labor be applied on the payment of his note with no check or cash being given or received. In such cases the transactions would be recorded by charging the amount of his labor to the Building Account with a corresponding Credit to Stock Subscription Notes. This credit would of course be made to his account in the subsidiary ledger, as well as to the total or control account in the GENERAL LEDGER.

If the gin machinery is purchased with the agreement that the Cooperative is to make its own installation, not only the purchase price of the machinery itself, but all labor and other installation costs would be charged to the Machinery Account. Freight and drayage on any of the machinery and equipment would also be charged to the Machinery Account.

A Newly Organized Cooperative Buying An Old Gin Plant.

In the case of a new cooperative that buys an old gin, the entries for the stock sales would be the same as for the first case. The entries for the building, machinery, etc., would be slightly different. For illustration, assume that the same stock sales have been made and recorded as in the first illustration, but instead of buying a new gin, a second-hand gin including the land, building, machinery and office fixtures, is bought for $10,000.00. Assume also, that $1000.00 of the purchase price was paid by a check, and a note for $9000.00 given for the balance.

The first job would be to split up the $10,000.00 purchase price into Land, Buildings, Machinery, Office Fixtures, and any other fixed assets that might have been acquired. This split-up of the cost of these asset accounts for entry in the books is [illegible] necessary if a complete set of records is to be kept. A committee made up of the members of the Board of Directors, the manager, the ginner, and perhaps some local business men, could appraise the value of each of these assets so that the total would equal $10,000.00; the purchase price. Assume that the following appraisal was made:

Land.	$ 500.00
Buildings	3000.00
Machinery	6300.00
Of. Fixtures	200.00

The journal entry would then be as follows:

JOURNAL

Sundry Debit Acct.	Amt.	Date	Name & Expl.		Chks. Iss'd.	Sundry Credits Acct.	Amt.
Land	$ 500.00	4-1	Former Gin Co.	To record the purchase of plant from former owners	$1000.00	Notes Payable	$9000.00
Bldg.	3000.00						
Mach.	6300.00						
Office Fix.	200.00						

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Each of the items in the Sundry columns would be transferred individually to the corresponding GENERAL LEDGER account while the totals of columns such as Checks Issued would be transferred to the GENERAL LEDGER including any other checks that might be recorded on the same page. Any improvement made to the Buildings of machinery, or any additional cost of the investment, and not as expense, in the same manner as would be used in building a new gin.

(D) A Cooperative that operated the previous season and has a balance set of books in which the assets and liabilities are recorded in the GENERAL LEDGER, or an audit at the close of the previous season in which a statement of assets and liabilities are given.

The first step in this case in opening the books for a new season would be to enter on the JOURNAL, the statement of assets and liabilities taken from this audit or the previous year's GENERAL LEDGER. If the GENERAL LEDGER and the audit are both available, the figures on the audit should be the more reliable. Suppose the following Balance Sheet or statement of Assets and Liabilities is available:

ASSETS

Cash in bank		$ 500.00
Land		600.00
Buildings	$ 5000.00	
less reserve for depreciation	1000.00	4000.00
Machinery and equipment	15000.00	
less reserve for depreciation	5000.00	10000.00
Office furniture and fixtures	500.00	
less reserve for depreciation	100.00	400.00
TOTAL ASSETS		$15000.00

LIABILITIES

Accounts payable	500.00
Mortgages payable	4000.00
Capital Stock or Working Capital	10,000.00
Surplus	1000.00
TOTAL LIABILITIES	$15,500.00

The objective is to get these figures entered in the Ledger (Form II). It would be possible of course to enter them directly in the Ledger from the statement, but to make the transactions complete, these items should first be entered on page 1 of the Journal (Form I). It is suggested that no other entries be made on page 1 of the Journal. The Journal entries would be made as follows:

JOURNAL

Sundry Dr.	Cash Dr.	Date	Name & Ecol.	Sundry Credit
	500.00		Cash	
600.00			Land	
5000.00			Bldg.	
			Reserve for Dep. on Bldg.	1000.00
15000.00			Mach. & Equipment	
			Res. for dep. on M&E	5000.00
500.00			Off. Furn. & Fixtures	
			Res. for dep.	100.00
			Accounts payable	500.00
			Capital Stock Outstanding	10,000.00
			Surplus	1000.00
			Mortgages Payable	4000.00

(Opening entries to place Assets and Liabilities on books as of April 1, 1935).

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Special attention is called to the omission of certain figures in this journal entry that are shown under Assets in the above Balance Sheet. For example, the present value of buildings, $4000.00 (the difference between the original cost of $5000.00, and the reserve for depreciation on buildings of $1000.00) is not entered on the Journal. Notice, however, that the $5000.00 item for buildings is entered on the left (Debit) side of the Journal and the $1000.00 item, Reserve for Depreciation on Buildings, is entered on the right (Credit) side of the Journal. It is not necessary, therefore, for the $4000.00 to be entered anywhere in the books as it is nothing more than the difference between the other two items. A similar procedure is followed with respect to other Assets

having an associated reserve for depreciation.

As soon as the items are entered on the Journal as illustrated above, it is then advisable to add the Debits (left side items) and see that the total equals the sum of the Credits (right side items). It will be noted that these totals are not the same as Total Assets and Total Liabilities as shown on the illustrative Balance Sheet. These totals as shown on the Balance Sheet are $15,500.00, while the sum of the Debit items, and the sum of the Credit items, on the illustrative Journal entry is $21,600.00. This difference is due to the fact that the "Reserves" are deducted from the Assets in the Balance Sheet, while they are shown as Liabilities (Credit items) in the illustrative Journal entry.

Having determined that the sum of the Debits is the same as the sum of the Credits as entered on the first page of the Journal, each of these items may now be posted to a separate sheet in the GENERAL LEDGER; the Debit items to the left hand (Debit) column, and the Credit items to the right hand (Credit) column in the Ledger. As each item is posted, indicate that fact by placing a check mark (✓) immediately after the amount. This check mark is for a reminder at any future time that an item has been posted. A trial balance of the GENERAL LEDGER may then be taken as has been previously explained.

A cooperative that operated the previous season, or for several years previous, but does not have an audit showing a balanced statement of the assets and liabilities at the end of the previous season, or no complete records showing the assets and liability accounts in balanced form.

This condition is the most difficult one of the four to properly enter on a set of books. In some cases where the management and office help have changed since the previous year and no complete records have been kept, it may be necessary to originate a Balance Sheet. The balance as shown by the monthly bank statement, less any outstanding checks at that time, will be the amount of the Bank account for your statement. Accounts due from customers and others, may be found in memorandum books at the gin office even though a balanced set of books was not kept. Such memorandum accounts, however, should be verified with the customer. As a rule, inventories of cotton, cotton seed, and other products will not have been large, but some informed member of the board will usually know about such items. In case no figures at all are available, showing the value of land, buildings, machinery and equipment, office fixtures, etc., separated as such, a committee selected from the Board of Directors together with the help of the manager and ginner, may be able to make an appraisal of the physical, present value of these assets; or better still, a commercial gin appraiser may be called in. The Secretary of the Board will likely know the names of the stockholders and the amount of stock or working capital contributed by each. Some of the Board members will know the approximate amount of the notes, mortgages and accounts due other people or firms, and the exact amount of these obligations may be obtained by writing or contacting these individuals or firms.

As soon as the Assets and Liabilities have in some such manner been

determined the difference between the total of the Assets and the total of the Liabilities will be the SURPLUS (or deficit) account to be used in making the sum of the Assets equal the sum of the Liabilities. Having determined a statement of the Assets and Liabilities, this statement would be entered on the Journal (Form I) and posted to the Ledger (Form II) in the same way as illustrated for the previous cases.

KEEPING THE RECORDS FOR EACH YEAR SEPARATE

From the standpoint of preserving records by years, a new set of General Ledger accounts should be opened up at the beginning of each season and the GENERAL LEDGER sheets of the previous year's business all put carefully away together. Even though an accurate ledger has been kept the previous year, the recording of the new year's business should not be continued on the same ledger sheets as it is often desirable to have each year's figures separate. All subsidiary ledgers may be continued from one year to another, removing only the sheets that are in balance, or those having the balance carried forward to additional sheets.

RECORDING THE TRANSACTIONS THAT OCCUR BETWEEN THE TIME A GIN IS SHUT DOWN IN THE WINTER AND THE TIME THE GIN OPENS FOR BUSINESS THE FOLLOWING FALL.

Many cooperative gins are quite inactive in the spring and summer, but in practically every case, some payments and collections are made. As a rule, some repair work is done; some miscellaneous sales are made in cleaning up remnants of cotton and seed; some feed or planting seed is bought and sold the farmers, etc. These transactions may be easily overlooked, as the only records available to the bookkeeper, who is not hired in many cases until just before ginning starts, is the original record of check stubs, deposit slips, sales tickets, etc. If a gin is quite inactive during the Spring and Summer, all the transactions for this period may be posted at one time. That is, all of the transactions during that period may be entered on the Journal (Form I) and posted to the Ledgers just before the ginning season begins. Of course, it would be more desirable for each month's transactions during this inactive period to be entered on the Journal and posted to the Ledger monthly.

The recording of some transactions during this period, requires special consideration, such as repair labor and the payment of expenses shown as accrued at the end of the previous year as Liabilities in the financial statement (Balance Sheet). Repair labor is quite different from operating wages. In fact, repair labor is nearly the same as repairs. For example, if a set of saws was sent to the machine shop to be filed and the machine shop charged you \$15.00, every one would agree that the check in payment would be charged to the repairs expense account. If, on the other hand, someone was hired locally to file the saws, the check in payment of their services would appear to be wages, but it would certainly not be operating wages. For that reason, a separate expense account should be kept for repair labor. The Federal income tax blanks call for all three expense accounts of wages, repair labor, and repairs.

Expenses that were due and unpaid (accrued expenses) at the end of the previous season, and properly shown as Liabilities, are sometimes confusing. For example, suppose the Balance Sheet at the end of the previous year shows an accrued item of $100.00 for manager's salary unpaid, as a liability. This means that the expense account, manager's salary, was charged in last year's business, but since the salary was not paid, it is shown as a liability of the cooperative the same as any other account or bill unpaid. When a check is subsequently issued to pay this back salary, which was earned and charged as an expense in the previous year's business, the check will not be charged to the expense account "Manager's Salary" but will be entered through the "General Debit" column on the Journal to the debit of that accrued liability account in the Ledger and thereby "balance out" the account. That is, since that account will then have $100.00 in both the Debit and the Credit columns of that Ledger sheet, the balance will be zero, and the account will not show up in later trial balances. Other accrued expenses shown in the Liabilities at the end of the previous year (beginning of the present year) such as taxes, interest, etc., would be handled likewise.

Prepaid expenses, on the other hand, will be shown in the Assets at the beginning of the present season. These are expense items such as insurance premiums on policies that had not expired at the time the books for the previous season were closed. When such prepaid items are shown as Assets at the time the books are opened, the account should, after making the opening entries, be balanced out by charging the proper expense account and crediting the corresponding asset account. Attention is called to the difference in handling accrued and prepaid items. Accrued items have been charged as expenses in the previous year, and are not expenses in the current year, while prepaid items are expenses in the present year and must be credited out of the assets account.

The following Journal entries will illustrate the way in which: (1) An accrued expense for manager's salary for $100.00 shown as a liability at the beginning of the year would be handled when paid. (2) An insurance policy showing a prepaid premium of $50.00 at the time the books were opened would be charged as an expense in the current season.

JOURNAL

Gen. Debit		Expense		Date	Name & Expl.	Checks Issued	Gen. Credit	
Acct.	Amount	Acct.	Amount			Amount	Acct.	Amount
Accr. Exp.	100.00				John Jones (Accr. Sal.)	100.00		
		Ins.	50.00		Prepaid Ins. (to chg. exp.)		Prepaid Ins.	50.00

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It is entirely correct that any prepaid and accrued expenses be set up in the Assets and Liabilities, respectively, at the end of the year when the books are closed. Certainly wages, interest, taxes, etc., that are due, are as much of a liability as any other bill due. Likewise, expenses such as insurance premiums that are paid several months in advance at the time the books are closed, are Assets. From a practical standpoint, however, if the policy of the association is to pay taxes and insurance premiums each year as they come due, it hardly seems worth while to enter these two items as accrued or prepaid as the case may be. The net result is practically the same as if they are charged as expenses in the year paid, providing, of course, they are paid each year. If for some reason, none or only part of the taxes is paid in a certain year, then, of course, it would be necessary to show the unpaid amount as a Liability, that is, as an accrued expense when the books are closed at the end of the year. On the other hand, very little is to be gained in setting up that portion of the taxes accrued for two or three months every season, when identically the same result would be obtained by charging the taxes as expenses when paid. The same thing is true regarding insurance premiums paid a few months in advance at the time the books are closed.

RECORDING TRANSACTIONS DURING THE GINNING SEASON

The transactions to be recorded during the ginning season naturally group themselves into four divisions.

(1) Ginning and wrapping which is closely associated with seed buying.
(2) Purchases of cotton and other products bought for subsequent sale.
(3) Sales.
(4) Expenses.

All of these transactions must first be recorded on the Journal in the order in which they occur, and from there transferred to the Ledger in totals where similar transactions are grouped together month by month.

It is possible to enter all of these transactions through the one Journal form shown by Form I. However, if the business is large enough to justify other Journals, a Cotton Purchase Journal, a Sales Journal, a Cash Book, etc., may be added. The following discussion will proceed, however, under the assumption that only one journal will be used, similar to the one illustrated by Form I. As stated before, columns other than the ones shown on this form may be added, or some of those shown omitted, if not needed.

Entering Ginning, B & T Sales, and Cotton Seed Purchases on the Journal (Form I).

No difficulty should be encountered in entering ginning and seed buying on the Journal. The scale tickets for any one day should be entered consecutively. There are several variations, however, that may

occur in recording the ginning of different bales of cotton. (1) The most common case will be when the customer sells his cotton-seed to the gin and receives in exchange the ginning and wrapping, and a small rebate check. The Cotton-seed purchased column is debited with the value of the seed, with offsetting credit items totaling the same amount entered in the ginning and wrapping column, and in the checks issued column. (2) The customer may "catch" his cotton-seed and pay cash for his ginning. The cash received column (a Debit) is used to record the cash paid by the customer, and the balancing Credit entry is the ginning revenue account in the column "ginning and wrapping". (3) The customer may "catch" his seed and charge the ginning, in which case the Account Receivable column is the Debit item and the ginning and wrapping column the Credit item. (4) The next customer may sell his cotton-seed, but request that instead of giving him a rebate check, you give him credit on his account for items previously charged, for the amount of the rebate. In this case, the seed bought by the gin is the Debit item, and the ginning and wrapping column plus the amount entered in the Accounts Receivable Credit Column are the balancing Credit items. Any number of other combinations might occur. The only principle to be used is that the gin charges or debits on its book everything that is received from the customer, and credits on its books, everything given to the customer in such a way that the sum of the debit entries, for each bale ginned, will equal the sum of the credit entries.

JOURNAL

Cash Debit	Accts. Rec. Dr.	C/S Bought Wgt.	C/S Bought Amt.	Date	Name & Expl.	Ginning Wrapping	Checks No.	Checks Amt.	Accts. Rec. Cr.
		1000	20.00		(1)	5.80	1	14.20	
5.50					(2)	5.50			
	5.65				(3)	5.65			
		1,100	22.00		(4)	6.10			15.90

It should be noted that for every bale ginned, the total charge for ginning and wrapping will always be entered in the "Ginning and Wrapping" column in the Journal, regardless of whether the cotton-seed is bought and the ginning deducted from the amount paid for the seed, cash is paid for the ginning, the ginning charged, or some other manner of settlement used. Moreover, the amount to be entered in the column for "Cotton-seed Purchased" is the full amount paid for the seed, before any deductions are made for ginning, accounts, or anything else, and not just the amount of any rebate check issued.

Recording the Transactions Involving Seed Cotton Remnants

Practically every cotton gin buys some cotton in the seed either as remnants or in bale lots. Various methods for recording the purchase, ginning, and sale of this cotton are used. Since cotton seed purchases, cotton purchases, ginning revenues, bagging and tie sales, and bale cotton sales are all involved in handling seed cotton the method used in recording such transactions should take into consideration all of these accounts.

Perhaps the easiest method to use, and at the same time the most accurate, is to:

(1) Enter the weight and cost of the seed-cotton as a debit in the appropriate columns under "Cotton Bought", with the corresponding credit entry in the "Checks Issued" column;

(2) when this seed-cotton is subsequently ginned, make out a scale ticket exactly as is done for custom ginning, which will be entered on the journal by debiting "Cotton Seed Bought" with the weight and amount of the cottonseed (also debit "number" and "weight" of bales columns at time of ginning under "Cotton Bought"), by crediting ginning and wrapping at the going rate, and by crediting "Cotton Sold" directly, instead of issuing a seed-rebate check, with the excess of the value of the cottonseed over the charge for ginning and wrapping; and

(3) when these company-bales are sold, along with other bales of cotton, credit "Bale Cotton Sold", with a corresponding debit to "Cash Received" or "Bank Deposit."

By this method the gin itself is considered to be one of its own customers. Although the cotton seed account and ginning account will likely make a book profit at the expense of the cotton account, the net result is exactly the same as would have accrued had some outsider bought all of these remnants, ginned them, and then sold the bale cotton to the gin at the original cost of the seed cotton, less the amount of the seed rebate over and above the charge for ginning and wrapping. Since the cotton account is not ordinarily charged with any of the additional labor, storage, or other costs in connection with the handling of this seed cotton, there is little, if any, justification for allowing all of the profits, if any, that are made on seed cotton to accrue to the cotton account.

Some gin managers prefer to show seed cotton purchases and the sale of resulting ginned bales as separate from the bale cotton account. This separation is, of course, possible, but after all offers little additional information as the final net profit or loss on buying and selling cotton is the same regardless of whether the cotton is bought before or after it is ginned.

Recording Purchases on the Journal

After the ginning scale tickets have been recorded on the JOURNAL the next group of transactions to be recorded is that of the Purchases, particularly of Bale Cotton. The amount of the check is the Credit item which is entered in the Checks Issued column. The corresponding debit is in the Bale Cotton Bought column. In case a separate bank account is kept for the purchase and sale of Bale Cotton, an additional Checks Issued Column will be necessary on the credit side of the Journal.

If the gin buys a bale of cotton on which the customer has not paid the ginning, it is quite a common practice to deduct the ginning from the check or bill of exchange issued in payment for the cotton. If the notation is made on the check stub that the ginning has been deducted, the Debit will be in the "Bale Cotton Bought" column, for the total purchase price of the cotton, with corresponding Credits to the "Checks Issued" column for the net amount of the check and a Credit to "Accounts Receivable" for the amount of the ginning deducted. Deductions from any checks issued to customers to pay on an account would be handled in the same way.

Bills of exchange, if handled as such by the bank, require special mention. That is, the bills of exchange may not be charged to your account when paid at the bank, as is done with a check, but will be held by the bank until you sell the cotton represented by the bills of exchange which the bank holds. As a rule, banks will handle Bills of Exchange exactly as they handle checks. If this practice is followed by the bank the bills of exchange which you issue for cotton should be recorded in exactly the same way as any other check. On the other hand, if the bank does not charge your checking account with each bill of exchange as paid by it the bills of exchange should be entered on your Journal in a column separate from the "Checks Issued" column. If this is done, an account in the GENERAL LEDGER under the title "Bills of Exchange Issued and Paid" will be needed. The total of the Bills of Exchange column on the Journal would be posted to the Credit column of the GENERAL LEDGER account. When the bank charges a number of these Bills of Exchange, which they have previously paid for you, to your bank account, and sends you a notice of the amount so charged, the proper entry on your JOURNAL would be to debit "Bills of Exchange" in the General Debit column of your Journal, with a corresponding Credit to the "Checks Issued" column. If the bank also adds a charge for handling these Bills of Exchange as such it will be necessary to debit the "Interest and Exchange" expense account with the amount added, since the credit item on your Journal, the total amount charged to your account by the bank, will be larger than the amount of the bills of exchange paid, by the amount of interest or other handling charges made at the bank. These charges are to be distinguished from "exchange" that may be deducted from the amount of your draft when a list of your cotton is sold and you draw a draft on the buyer for the total amount of the sale. The recording of such deductions, however, will be discussed under Sales in the following section.

Recording Sales on the Journal

For convenience, the Journal should have as many sales columns as there are products handled that are frequently sold in any appreciable quantity. Every gin sells cottonseed and it is quite common for a gin to sell cotton, coal, feed, etc. A product that is sold only occasionally may be entered in the General Credit column and posted to the ledger as an individual transaction rather than a column total as is done for sales of products such as cottonseed, cotton, etc. It will probably be found advisable to have one miscellaneous sales column through which the sale of minor products such as coal, feed, supplies, etc., would be entered and posted as one account. The local sales of cottonseed as well as the carlot sales, should be recorded in the cottonseed sales column. The weight in tons or pounds should also be recorded and transferred to the Cottonseed Sales account when the total of the column is posted to the GENERAL LEDGER.

The Debit items corresponding to the above Credit items will, of course, be made on the left side of the Journal. If cash is received, the amount will be entered in the "Cash Dr" column. Likewise, if it is a charge sale, the amount will be entered in the Accounts Receivable debit column.

Cash received for ginning at the time a bale is ginned should be so indicated on the scale ticket without an additional specific cash receipt being necessary. In recording this scale ticket on the Journal, the amount of cash received will be the debit entry in the cash received column offsetting the ginning and wrapping entry on the credit side of the Journal.

The debit to the Cash Received Column from a cash sale of coal, feed, or other products, would likewise be made directly from the sale ticket or invoice without any necessity for making out a journal cash receipt.

The cash receipt book should be used only for the collection of cash on statements or invoices previously made out and charged, and for the receipt of money in payment of interest, rebates on insurance premiums, etc. These cash receipts should be entered on the Journal at the end of each day.

The proper entries for car lot sales of cottonseed depend somewhat on the condition of the sale. If, for example, a car is shipped "open" to an oil mill, the Credit is to "Cottonseed sales" and the Debit

to Accounts Receivable. This entry is illustrated as Car 1, below. If the oil mill then sends you a check as soon as the car has been received, the entry then to be made on your book would be credit Accounts Receivable and debit Cash. In case it is desirable to keep accounts with oil mills separate from customers charge accounts, the charge and credits to the oil mill may be handled in the General Debit and General Credit columns, by having a separate sheet in the General Ledger instead of a sheet in the Accounts Receivable Ledger for each oil mill.

If a car of seed is shipped under bill of lading with draft attached, there will be two entries to be made on each side of the Journal. The weight and amount of the seed would be entered in the "Cottonseed Sales" column with a corresponding debit to the "Bank Deposits" column. In addition, the oil mill would be credited with the amount of the draft in the Accounts Receivable Credits column (or in the General Credit column) and debited or charged with the car of seed (by R. R. car no.) in the "Accounts Receivable Debit" column (or in the General Debit column). When the oil mill returns the out-turn on the car of seed, their account is charged, if your draft was less than the value of the cottonseed by their weights, with a corresponding credit in the "Cottonseed Sales" column. If the mill later sends you their check for the amount, you would credit their account and show the corresponding debit in your Cash Received column. If on the other hand, you overdrew, leaving you owing the mill, the Credit in recording the out-turn, would be to the account of the oil mill in the Accounts Receivable Credit column (or General Credit column), with the corresponding debit to "Cottonseed Sales" account in the "General Debit" column. Since, obviously, there will not be a "Cottonseed Sales" column on the Debit or left-hand side of the Journal, the entry would have to be made in the "General Debit" column and posted individually to the Debit column of the Cottonseed Sales Account in the GENERAL LEDGER. (See illustration below, Car 2). When you later issued the mill a check to cover this amount which you overdrew, your Credit entry will be in the Checks Issued column, with a corresponding Debit entry to the oil mill's account in the "Accounts Receivable" debit column (or in the General Debit column). However, these small amounts resulting from overdrawing or underdrawing drafts, may not be paid on each car and instead may be settled by one check from the oil mill or to the oil mill as the case may be at the end of the season.

Truck shipments of cotton-seed are perhaps the most difficult to properly enter on the books. If the oil mill remits by check, for each

load, these sales may be handled the same as local cash sales. If, however, the oil mill remits weekly, it will probably be better to keep the weight of sales by truck loads in some memorandum book, and not enter them as sales until an invoice is received from the oil mill. If the mill sends their check with the invoice, the transaction may be entered as a cash sale or by a double entry, in the same way that the car lot shipment under bill of lading was handled, as discussed below. (See last line in following illustration.)

JOURNAL

Gen. Debit		Bank Dep.	Cash Recd.	Date	Name & Expl.	C/S Sales		Gen. Credit	
Acct.	Amt.					Wgt.	Amt.	Acct.	Amt.
C/S Oil Co.	600				B/L Open Car I	40,000	600		
			598		Outturn Car I Ck.			C/S Oil Co.	598
C/S Oil Co.	600	600			B/L & Draft Car 2	40,000	600	C/S Oil Co.	600
C/S Sales	10				Outturn Car 2			C/S Oil Co.	10
C/S Oil Mill	480		480		Local Oil-Truck Mill	24,000	480	C/S Oil Co.	480

It is quite a common practice for gins to buy bagging and ties as well as other supplies, from oil mills. If this is done, it is much easier from the standpoint of the gin's record, for the gin to issue its check for items bought from the oil mill, and receive the oil mill's check for the full amount of seed sold to them. Any oil mill will likely consent to such an arrangement if requested to do so by the gin manager.

Deductions from Checks Issued to Customers

It is the policy of many cooperative gins to do business on strictly a cash basis, and not carry any charge accounts (accounts receivable) with customers on their books. If this practice is followed by a gin, the Journal will not need the "Accounts Receivable" debit column or the "Accounts Receivable" credit column. However, gins that attempt to do only a strictly cash business, frequently are called on to wait, when the customer "catches" his cotton-seed, until the bale of cotton is sold. This transaction may be handled exactly as a cash transaction, by writing out a cash receipt to the customer at the time the bale is ginned and holding the cash receipt in the cash drawer as cash until the ginning is paid. If the customer pays with cash (or check) no additional book entry is necessary. Simply give the customer the cash receipt which was made out (and entered on your Journal as cash received) at the time the bale was ginned. If the customer sells the bale of cotton to the gin

and requests that the ginning be deducted from the amount of the check, the check stub would be made out, for example, as follows:

Cost of cotton	$50.00
Less ginning	5.00
Amt. of check	$45.00

In the above case the cost of cotton ($50.00) would be entered in the "Cotton Purchased" column, the amount of the check ($45.00) in the "Check Issued" column, and the amount deducted for ginning ($5.00) entered in the "Cash Credit" column, since you will surrender to him the cash receipt that you made out at the time the bale was ginned, and which you have been holding in the cash drawer as cash. In reality, you are parting with that which has represented cash (the cash receipt). This method of handling accounts that run only a few days will make it unnecessary to open up an account in the "Accounts Receivable" Ledger, (even when one is used) for customers that have only a few items charged each season. The above method of handling all charge accounts, by making a cash receipt for every item charged and holding that receipt until paid, as cash, is used by most of the line gin companies quite satisfactorily.

Recording Expenses on the Journal

After scale tickets, cotton purchase checks, and all sales have been entered on the journal each day, the checks that have been issued for expenses should then be entered on the Journal. It might be mentioned again that it will usually be found convenient for a gin to use three different check books; one for seed rebates; one for cotton purchases which may be a bill of exchange; and one for expenses. The use of three different checks (when cotton is bought) makes it easier to enter the transactions on the journal by groups in the order in which they were made, and it further facilitates verifying the cancelled checks when reconciling the bank statement.

The credit entries on the Journal for all items of expense paid by check are recorded in the "Checks Issued" column. Corresponding or offsetting debit entries will be made in the "Expense Debit" column. As stated previously, expenses should be charged in so far as possible to the particular department (ginning proper, cotton, cotton-seed, etc.) for which incurred. It will sometimes be necessary to make two or more entries in the "Expense Debit" columns to balance with the amount of the check in the "Checks Issued" (credit) column. For example, if the premium on blanket insurance policy in amount of $60.00 is paid, and it is estimated that the cost of this insurance should be divided equally between ginning proper, cotton, and cotton-seed, the Journal entry would

be as follows:

JOURNAL

Expense Debit		Date	Name and Explanation	Checks Issued	
Account	Amount			Number	Amount
B/C Expense C/S Expense Insurance (Gin)	20.00 20.00 20.00		Mutual Insurance Co. Blanket Policy	1	60.00

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Of course, it will not be possible to estimate exactly the correct proportion of certain items of expense that should be charged to the several departments, and it will probably not be advisable to attempt to charge any part of such expenses as salaries, office supplies, etc., to departments other than ginning proper. A part of the expense for telephone and telegraph may be charged to cotton and cotton-seed if numerous long distance calls are made in selling these products, and especially if the amount of that expense is large. As a rule, it will be found to be desirable to charge cotton, cotton-seed, etc., with only the direct expenses such as hauling, etc., incurred in handling these products.

Small items of expense that are paid in cash are recorded in exactly the same way as those paid by check, with the exception that the credit entry on the Journal is in the "Cash Paid Out" rather than the "Checks Issued" column.

The following Journal entries will illustrate the method of entering expense checks and small items of cash expenses on the Journal.

JOURNAL

Sundry Debit		Expenses		Name & Explanation	Cks. Issued		Cash Credit
Account	Amt.	No.	Amt.		No.	Amt.	
		34	150.00	John Jones - Mgr. Sal.	2	150.00	
		27	100.00	Clyde Smith - Bkp. Sal.	3	100.00	
				C. Hart - Ginner	4	30.00	
		29	100.00	A. L. Short - Engineer	5	28.00	
				A. V. White - Passman	6	24.00	
				N. E. Black - Suction	7	18.00	
		31	20.00	Gin Sup. Co., 2 Pulleys	8	20.00	
		39	4.50	Telephone Co., Mo. Acct.	9	4.50	
		6	5.00	Telegraph Co., CND	10	5.00	
		6	3.00	OK Cotton Yd. - Yardage	11	3.00	
		6	5.00	Local Truck Co., Hauling	12	45.00	
		13	40.00				
		38	.75	Cash Pd. for stamps			.75
Off. F. & F.	100			Off. Sup. Co., Adding Mach.	13	100.00	

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(The numbers in the first column under Expenses refers to the account numbers as shown on Form III. The name of the expense account could have been used instead of these numbers.)

At the time a set of books is opened, it is necessary to decide, at least generally, on the number of expense accounts that will be needed. The following list of accounts, numbered according to the lines in Form III is given as suggestive, with indications of the items of expenditure that should be charged to each account.

Expenses of Handling Cotton (Line 6). One or several separate accounts in the Ledger may be used for recording the expenses of handling bale cotton. It might be advisable to have several different accounts in the Ledger and yet show them as one total when the Profit and Loss Statement is made up. Such expenses as drayage, yardage, storage, exchange or drafts, brokerage, C. N. D. telegraph service, and perhaps a portion of such expenses as telephone and blanket insurance.

Expenses of Handling Cottonseed (Line 13). Drayage is the principal expense incurred in handling cottonseed. If an extra man is hired to shovel seed, his wages should be charged to this expense account. As for cotton, a part of the telephone bill or a part of the premium on blanket insurance policies could be logically charged to Cottonseed.

Handling Expenses on Coal, Feed, Supplies, Etc. (Line 20). All of the miscellaneous trading accounts should be charged with any item of expense incurred directly in handling these products.

Fuel - Power - Lights - Water (Line 28). The invoice cost of coal, gas, oil, or any kind of fuel used, including freight, drayage and unloading on these items. Monthly gas bills, electric bills, and water bills. If any of the fuel is sold to customers, the cost of the amount sold should be deducted from (that is, credited to) the fuel account and the sale shown under Other Sales with the cost shown as Purchases.

Wages - (Line 29). All wages paid for gin crew, night watchman, or wages for any other gin labor. Do not include office salaries.

Repair Labor (Line 30). Labor paid during Spring or Summer for repair work, saw filing, contract labor for painting smokestack on buildings, scale testing, etc.

Repair Material (Line 31). Cost price of all repair parts, including freight, express, or drayage on these parts. Belt lacing, lumber, sheet iron, nails, cement, sand, etc., used in making minor repairs to the building.

Supplies and tools (Line 32). Wrenches and other small tools. Brooms, seed forks, cotton forks, bale tags, marking ink, belt dressing, etc.

Lubricating Oil and Grease (Line 33). Engine oil, grease, or any other oil used in lubricating the gin machinery or power plant.

Manager's Salary (Line 34). All checks paid to the manager as salary or commission. If the manager is furnished a house as part of his compensation, a reasonable monthly charge should be made to this account with an offsetting credit to rental or miscellaneous income. Fuel or lights furnished should be likewise charged with corresponding credits to some sales or revenue account.

Manager's Expense (Line 35). Travel and other expenses of managers, such as auto expenses that are authorized by the Board of Directors.

Director's Fees (Line 36). Any salaries, fees, or expenses paid to the Directors by the gin.

Office Salaries (Line 27). Payments made to bookkeeper, weigher, or other office help for wages or salaries. Do not include payment made to auditor.

Office Supplies and Postage (Line 38). Scale tickets, check pads, Daily report sheets, all record books, adding machine and typewriter ribbons, pencils, stationery and postage stamps.

Telephone and Telegraph (Line 39). Monthly telephone and telegraph bills.

Insurance and Bond Premiums (Line 40). Insurance premiums of all kinds. Fire and tornado premiums on buildings and machinery. Boiler insurance. Commodity insurance. Surety Bond premiums, premiums on accident policies. Payroll or compensation insurance.

Auditing and Legal (Line 41). Annual or monthly fees paid to auditor. Lawyer fees. Do not include stationery or bookkeeping forms bought from auditor.

Advertising and Dues (Line 42). Newspaper advertising, circulars, Souvenirs such as calendars, pencils, cotton books, etc. given customers. Dues paid to Chamber of Commerce Civic Clubs, trade organizations, etc. Subscriptions to newspapers and magazines.

Drayage (Line 43). Drayage, hauling, truck hire, etc. Charge to department for which incurred.

Taxes - except Federal Income (Line 44). Ad valorem taxes, state income tax, Corporation license tax, Auto or Truck license. All Federal Taxes except Income and excess profit taxes.

Loss on Bad Accounts (Line 45). Any accounts determined to be worthless and charged off during the year. Unless a large amount of charge accounts are handled, it is inadvisable to set up reserves for probable losses. Worthless accounts may be charged off directly.

Depreciation (Line 46). At the end of the year with total depreciation on building, machinery, furniture and fixtures, auto or truck, and any other depreciable assets.

Interest and Exchange (Line 47). All interest on long or short-time notes. Exchange on drafts. At the end of the year charge this account with all interest due and unpaid, and make a corresponding credit to accrued expenses.

SUMMARIZING THE JOURNAL AND POSTING TO THE GENERAL LEDGER

As soon as all of the transactions for a given period have been entered on the Journal, the next step is to post to the corresponding accounts in the General Ledger. Posting may be done daily or for each journal sheet as it is completed, or monthly. Monthly posting is preferable and is the method most commonly used.

As more than one Journal sheet will be used in recording a month's business, a total for each column on all of the Journal sheets will be needed. To avoid mistakes in addition, each sheet should be totaled and balanced separately. The totals for each column may be brought forward and indicated at the top of each succeeding sheet until the end of the month, or each sheet may be totaled separately, and then at the end of the month enter each of these several totals on consecutive lines of a summary Journal sheet, which in turn would be added for a grand total.

Since every transaction will have been entered both as a debit and a credit on the Journal, the sum of the Credit items will equal the sum of the Debit items for any one sheet or for the cumulative sum of all the sheets used during the month. This "proving" should by all means be done before the totals are posted to the Ledger. When these balanced totals for a month's business have been obtained on the Journal, the totals of all columns except the General Debits and General Credits totals will be posted to corresponding accounts in the General Ledger. The individual items in the General Debit and General Credit columns will already have been posted to the Ledger as they occurred. Obviously, the totals in debit columns of the Journal will be posted to the Debit columns of corresponding accounts in the Ledger, and likewise the totals in credit columns of the Journal to the Credit columns of corresponding accounts in the Ledger.

The total of the "Expense Dr." column may or may not be posted to a Total Expense Account in the Ledger. If the Total of Control Expense is used it should be remembered in taking a Trial Balance of the Ledger that either the individual expense accounts or the Control Account is to be

omitted. One advantage of having a Control Expense Account in the Ledger is that the total of the individual expense accounts may be proved for correctness by adding them to see if the sum equals the amount in the Control Account.

Individual expense accounts may be transferred from the Journal to the Ledger in either of two ways. (1) Each individual charge as entered in the Expense Debit column may be posted to the corresponding account in the Ledger, or (2) a total of all items to each account may be determined on a work sheet at the end of the month and these totals with the name or number of each account rewritten directly under the total of the column on the last Journal sheet for that month as a recapitulation, and the total amount for each item of expense posted as one total to the corresponding expense account in the Ledger. The latter method may require somewhat less time as there will be fewer postings to be made to each expense account, but the first method is preferable, in that it is often desirable to know from the Ledger, just what items have been charged to each account (expense). For example, the expense account "Repair Material" might have several charges during any one month, the sum of which would be quite large. If each of the individual expenditures for repairs was posted to the Ledger, it would give much more detailed information. That is, the Ledger expense accounts would show not only the amounts but also the particular items charged to each expense account.

ARRANGING THE GENERAL LEDGER ACCOUNTS

An orderly arrangement of the accounts in the General Ledger will facilitate posting from the Journal to the Ledger, and also necessitate less effort in making out monthly statements. The necessary accounts for the business of a cotton gin naturally divide themselves into four groups:

(A) Assets.
(B) Liabilities.
(C) Trading and Revenue Accounts.
(D) Expenses.

The list of accounts that will be needed for each of the above sections will vary somewhat from one gin to another. The following list of accounts is suggested, however, for those associations that engage in the activities usually associated with cotton ginning.

General Ledger

A. ASSETS (one page for each of the following accounts):

Cash in Office
Cash in Bank
Accounts Receivable

Notes Receivable
Inventories
Stock Subscription Notes
Investments
Meter Deposits
Land
Buildings
Reserve for Depreciation on Building
Machinery and Equipment
Reserve for Depreciation on Mach. and Eqp.
Furniture and Fixtures
Reserve for Depreciation, Fur. and Fix.
Truck and Auto
Reserve for Depreciation, Truck and Auto
Other Fixed Assets
Reserve for Depreciation, Other Fixed Assets
Prepaid Expenses (Insurance, Etc.)

B. Liabilities (one page for each of the following accounts)

Accounts Payable
Notes Payable
Patronage Dividends Payable
Accrued Expenses
Mortgages Payable
Capital Stock Issued
Capital Stock Subscribed
Ten Percent Reserve Fund
Surplus

C. Trading and Revenue Accounts (one page for each of the following accounts)

Cotton Sales
Cottonseed Sales
Coal, Feed, Etc., Sales
Miscellaneous Income
Revenue from Ginning and Wrapping
Cotton Purchased (Including beginning Inventory)
Cottonseed Purchased (Including beginning Inventory)
Coal, Feed, Etc. Purchased (Including Beginning Inventory)
Bagging & Ties Purchased (Including Begin. Inv., Freight, Dray, etc.)
Miscellaneous Income

D. Expense Accounts (one page for each of the following accounts)

Expense Control (Total of all Expenses)
Expenses of Handling Cotton
Expenses of Handling Cottonseed

Expenses of Handling Coal, Feed, Etc.
Fuel, Power, Light, Water
Wages
Repair, Labor
Repair, Material
Supplies & Tools
Lubrication Oil and Grease
Manager's Salary
Manager's Expense
Directors Fees and Expense
Office Salaries
Office Supplies and Postage
Telephone and Telegraph
Insurance and Bond Premiums
Auditing and Legal
Advertising and Dues
Drayage for Gin Only
Taxes - except Federal Income Tax
Loss on Bad Accounts
Depreciation
Interest and Exchange

If a loose-leaf ledger binder is used, several of the subsidiary ledgers may be conveniently placed in the same binder with the General Ledger. That is, by putting visible tabs on division sheets, the General Ledger binder can be used to accomodate several of the subsidiary ledgers as well. The same form of ledger sheet that is used for the General Ledger, may also be used for each of the subsidiary ledgers, with the exception of the Customers' Ledger. Following is a list of the subsidiary ledgers that may be put in the same binder with the General Ledger.

(1) Stock Ownership or Membership Ledger
(one page for each member)
(2) Stock Subscription Notes Receivable Ledger
(one page for each note)
(3) Dividends Payable Ledger
(one page for each member or patron)
(4) Accounts Receivable Ledger
(one page for each charge account)

As the page rulings for the Customers' Ledger are necessarily different from that of the other ledgers, it will probably be necessary to provide a separate loose-leaf binder for this ledger. Each customer would have a separate page in this ledger.

It will be noticed that several of the accounts shown on the Profit and Loss Statement (Form 3) are not shown in either the Trading or Expense section of the General Ledger Accounts suggested above. Present

Inventory accounts (lines 3, 10, 17 and 25 on Form 3) would not be represented by pages in the General Ledger until the books are closed at the end of the year. Other lines shown on Form 3, such as Cost of Goods sold (lines 4, 11, 18 and 26); Gross Profit on Sales (lines 5, 12, 19, and 27); and Net Profit (lines 7, 14, 21 and 49) will not ever be represented by pages in the General Ledger. These accounts are only statement accounts. Line 50, Total Net Income, would in effect be the Profit and Loss Account in the General Ledger when the books are closed at the end of the year.

TAKING A TRIAL BALANCE OF THE GENERAL LEDGER

As soon as all of the totals of all the columns on the Journal (Form I) have been posted to corresponding accounts in the General Ledger (Form II) each month, a Trial Balance of the Ledger is necessary to determine the accuracy of the postings. If the totals of the Debit items on the Journal were equal to the total of the Credit items, and no error was made in posting these totals to corresponding accounts in the Ledger, a summation of the accounts having debit balances (the difference between the Debit and the Credit columns in each account) will give a total exactly equal to the summation of the accounts having Credit balances. Moreover, equal sums may be obtained by adding the total Debits to each account and the total Credits to each account. If the latter method is used, it will still be necessary to determine the balance of each account on the trial balance sheet. As mentioned previously, if a "Total Expense Account" is entered in the Ledger, in addition to all of the individual expense accounts either the "total" or all the individual accounts will be omitted from the Trial Balance.

Monthly Trial Balances are indispensable in locating errors, and in proving the correctness of the accounts. These Trial Balances may be recorded on any kind of ruled paper, but it is much more desirable to have a long, narrow, two-column day book in which each monthly Trial Balance is written as a permanent subsidiary record.

MONTHLY STATEMENTS

A monthly statement, especially of revenues and expenses, is very desirable information for the manager, and the Board of Directors. These statements are not difficult to prepare and do not require very much time after the Ledger is balanced each month, and do not require that the books be closed.

The Profit and Loss Statement illustrated by Form III is intended for both monthly and annual statements. If each succeeding monthly report is made out to include all business from the beginning of the year (usually April 1) to the date of the report, the statement will be found to have more meaning than one made for a single month. For example, the report made at the end of September would include all income and expenses from April 1 to September 30. Likewise, the report made at the end of October would include all income and expense from April 1 to October 31. That is, the statement for each monthly report would begin with April, or the beginning of the fiscal year. If it is then desired to determine the

profits for October alone the income for each product handled as shown by the September 30 report could be subtracted from corresponding figures in the October 31 report. Expenses for September could be ascertained in a similar manner.

In making out monthly reports, a trial balance of the ledger, together with a profit and loss statement, is usually more practical than a complete statement of assets and liabilities, and a profit and loss statement. In order to reduce the number of accounts in the trial balance all expense items may be conveniently shown as one total.

Due to certain prepaid and accrued items it is somewhat impractical to make a very accurate balance sheet during the busy season. For example, premiums on insurance policies are paid only a few times each year, while the cost of insurance is obviously going on each month. The same thing is true regarding taxes, and interest on indebtedness. Depreciation is likewise not entered on the books until the end of the year, and yet the greatest amount of depreciation takes place during the busy ginning season. Weekly wages are frequently earned in the latter part of one month and paid in the first part of the following month. It is of course possible to enter these prepaid and accrued items in making monthly reports, but it is doubtful if the extra amount of time required justifies their inclusion. It might be desirable, however, to make a memorandum on the monthly report calling attention to the fact that certain large items have been prepaid or are accrued.

After the trial balance has been obtained at the close of the first month's business and the desired statements prepared, the entries and postings for the succeeding months will be similar to those for the first month.

The monthly trial balance proves only the accuracy of the amounts posted and not necessarily that the postings were made to the proper accounts. The Bank account as shown in your General Ledger should be reconciled with the monthly statement received from the bank. Each of the control accounts in the General Ledger may also be proved for accuracy by balancing with the corresponding Subsidiary Ledger.

The balance of the cash account in the General Ledger at the end of each month should by all means be verified with the amount of cash that was on hand by actual count on that date, even though a daily check on the accuracy of the cash on hand was made.

RECONCILING THE MONTHLY BANK STATEMENT WITH THE BANK ACCOUNT AS SHOWN BY THE BOOKS

The balance of the "Bank Account" at the end of any month, as shown by the books of a firm, will seldom be the same as the balance shown on the bank statement as of that date. This is especially true of bank accounts of cotton gins during the active ginning season when a great number of checks are being issued each day. The balance of the bank account as shown by the books of a cotton gin at any given date is the amount of money that would be on deposit if all checks issued to that date were cashed at the bank.

The "true" bank balance, then, is the amount as shown by the bank statement less the amount of outstanding checks as of that date. This true balance will agree with the balance subject to check, as shown by the books, if a record of all deposits and withdrawals has been properly made.

If the balance of the bank account as shown by the books does not agree with the balance as shown by the bank statement, less the outstanding checks, it is evident that some items have not been recorded or that an error has been made. In most instances the bank statement will be found to be correct.

As soon as monthly bank statement has been received the cancelled checks should be arranged by check number. If there is a large number of these checks the arrangement by number can usually be facilitated by first sorting them in groups of tens (1 to 9, 10 to 19, 20 to 29, etc.) and then arranging by number within each group.

Having the cancelled checks arranged by number, the next step is to determine the checks that have been issued but not cashed at the bank at the time the statement is made out. This may be done by checking the cancelled checks against the record of the checks issued as shown on the book or books in which the checks were recorded by payee, check number, and amount of the check. This record of the checks, in the order in which issued, will usually have been made on the "Daily Gin Report" or some other similar book of original entry.

It would, of course, be possible to verify the cancelled checks with the stub or carbon copy that was made at the time the check was issued. Whichever method is used, a check mark (✓), preferably with a colored pencil, should be made beside the figure showing the amount of the check for those checks which have been paid by the bank. Instead of the check mark, "Pd" or any other notation could be used.

As soon as all of the cancelled checks have been accounted for, it will then be possible to turn back through the book in which the checks were recorded (or the check stubs) and make a list by number and amount, of the checks issued but not cashed. The total amount of these checks subtracted from the balance, as shown by the bank statement, should show the true bank balance as of the date of the statement.

Usually, however, certain other items make the procedure a little more complicated. Banks sometimes make certain charges for interest, exchange, returned checks, etc. That is, the bank will charge your account with these items and place in your statement a "charge" or "debit" slip which is paid and cancelled in the same way that a regularly issued check is handled. The only difference is that these charges will not have been recorded on your books. These items will therefore have to be subtracted from the balance of the bank account as shown by your books.

Another frequent occurance that causes some difficulty in reconciling a bank statement is that of a deposit made on the last day of the month, and recorded on your books as deposited that month, but not entered by the bank on your statement until the first day of the following month. In reconciling the bank statement, this amount must be added to the balance as shown by the bank.

The above principles may be illustrated by the following example: (1) At the end of a certain month your bank balance as shown by your books is $1215.00. (2) Your bank statement is received the following day and shows a balance of $1000.00. (3) In addition to cancelled checks which you have issued there is enclosed with the bank statement a debit slip for $15.00 for a returned check which you have previously deposited. (4) There is also a deposit for $500.00 which you made on the last day of the month and recorded on your books as deposited, but which was not entered on the statement for this month by the bank. (5) After arranging your cancelled checks, you find a total of $300.00 that have been issued and recorded on your books but have not been cashed at the bank.

In order to reconcile your books with the bank statement, the following calculations may be made and attached to your bank statement for future reference.

Bank balance as shown by Bank Statement		$1,000.00
	Add: Deposit made on last day of month but not entered by the bank until the following month.	500.00

Deduct:	Outstanding checks at the end of the month.	300.00
	True BANK BALANCE (Statement)	$1,200.00
Bank balance as shown by your books		$1,215.00
Deduct:	Debit slip paid by the bank but not entered on gin books	15.00
	True BANK BALANCE (books)	$1,200.00

In this case the $500.00 deposit will already have been entered on your books. Since it will show up on your next month's bank statement no additional entries on your books are necessary. The $15.00 charge slip, however, must be entered on your books in order that your bank account as shown on your books will record the same items paid out as have actually been paid by the bank. This entry may be made either during the same month in which it was paid by the bank, or on the following month's record. Such items may be entered on your books in the same way that a regularly issued check is recorded. This entry may be distinguished from that of a check by writing "Bank Debit" in the column in which the check number is ordinarily recorded.

The important things are (1) to see that every item paid by the bank, in addition to checks which you have issued, is also recorded on your books, and (2) to see that all items entered on your books have been, or will be in the regular course of business, entered on your account at the bank.

The list of outstanding checks which you have made showing the check number and amount should also be attached to the bank statement for future use. When the bank statement for the following month is received, those checks outstanding at the beginning of that month may be checked (✓) off of this list rather than from the "daily report" (or other books of original entry or check stubs). By doing this, it will not be necessary to search back through the book or books in which the checks are recorded, beyond the present month, to get a list of the outstanding checks.

Obviously, it will be necessary to keep a more or less complete set of books in order to be able to reconcile a bank statement. If a complete set of balanced, double-entry accounts are not kept in the gin office, (that is, ledger accounts showing assets and liabilities as well as trading and expense accounts to which totals are transferred-"posted"-monthly) a record of just the bank account may be

kept by adding deposits made during the period to the balance at the beginning of the period (assuming there were no outstanding checks at the beginning) and deducting the checks issued during the period. However, to reconcile a bank statement for any given period, whether it be one month or several months, the book balance and bank statement balance (less outstanding checks) will have to agree at the beginning of the period. In case more than one month is being reconciled at one time, the balance as shown by the last bank statement is the only one that is used in arriving at the reconciliation. However, a careful check should be made of the cancelled checks returned with each bank statement for any "debit" slips that may have been paid by the bank in order that these items may be properly recorded on your books.

PROVING SUBSIDIARY LEDGERS AGAINST CONTROL ACCOUNTS IN THE GENERAL LEDGER

As stated previously all ledgers, such as the customers' ledger, accounts receivable ledger, accounts payable ledger, stock ownership ledger, notes receivable ledger, notes payable ledger, dividends ledger, etc. are each only a subdivision of of one total or control account in the General Ledger. For example, the total of all the accounts in the Stock Ownership Ledger will exactly equal the Stock Issued Account in the General Ledger. Likewise, the total of all the accounts in the Accounts Receivable Ledger will exactly equal the Accounts Receivable Account in the General Ledger. That is, there is really only <u>one</u> ledger - the General Ledger, and each subsidiary ledger is only a subdivision of some one account in the General Ledger.

These control accounts in the General Ledger are charged, and credited periodically - usually once a month - with totals only of certain columns in the Journal. The individual accounts in these subsidiary ledgers are charged and credited from these Journal columns one item at a time as these transactions are recorded. Obviously, the balance as shown by the control accounts at the end of any given period when all posting to that date has been completed, will be the same as the sum of the balances of the individual accounts in corresponding subsidiary ledgers.

A convenient practice followed by many bookkeepers is to make a list of the individual accounts in each subsidiary ledger each month, showing the balance in each account, before any debits or credits for the succeeding month have been posted. The sum of these individual accounts should be exactly equal to the balance of the corresponding control account in the General Ledger at the end of each month. The control account only will appear in the trial balance of the General Ledger.

If the trial balance shows the General Ledger to be in balance and yet one or more of the subsidiary ledgers is out of balance with its corresponding control account, it means that some mistake has been made either in posting column totals to the control accounts in the General Ledger, or in posting items to individual accounts in a subsidiary ledger. Where a control account (Total Expenses) is used for expenses, the individual expense accounts may be proved for accuracy against the control in much the same way as individual accounts in subsidiary ledgers are balanced against the control in the General Ledger.

The number of subsidiary ledgers that will be needed depends entirely on the number of control accounts in the General Ledger. If no business is done on credit, obviously there will be no need for an Accounts Receivable Ledger as there will not be any Accounts Receivable Account in the General Ledger. The same thing is true with respect to accounts payable, notes receivable, notes payable, etc. If only a very few individual accounts (two or three) make up the total of any of the above groups, the individual accounts can possibly be most easily recorded in the General Ledger with a separate sheet for each individual account rather than having one control account in the General Ledger, with a subsidiary Ledger for the individual accounts.

Every Cooperative Cotton Gin should have at least three subsidiary ledgers, (1) Stock Ownership (or Membership) Ledger (2) Customers' Ledger (3) Dividends Ledger. Other subsidiary ledgers will be necessary for many cooperative gins, but the three listed above are minimum requirements.

Entries to the Stock Ownership Ledger would be made only when stock is sold, transferred, or repurchased by the gin. If both common and preferred stock is issued, two Stock Ownership Ledgers will be needed. For non-stock cooperatives, the original membership fee (not the annual dues) should be set up in the balance sheet as a capital liability. That is, if a cooperative is started with fifty members and the original membership fee is $3.00 all of which is paid in cash, the first entry that would be made on the books would be as follows:

JOURNAL

General Debits		Date	Name & Explanation	General Credits	
Account	Amount			Account	Amount
Cash Acct.	$150.00		(Subscribers' names)	Membership Subscription	$150.00

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The $150.00 credit item would be posted to the Membership Subscription Account in the General Ledger, with postings to each member's account in the Membership Ledger. Since memberships in non-stock associations are usually not transferable, it would not be absolutely necessary to have a separate sheet or page for each member as would be the case for a cooperative that has capital stock. That is, any ordinary day book would do for a membership register as the names of the members could be written in successive lines of the same page. The sum of these amounts contributed by the members as membership dues would at all times be equal to the Membership Subscription

Control Account in the General Ledger. Membership dues are to be distinguished from the annual dues of each member. The membership fee is paid only once. It is similar to the initiation fee of a lodge. Annual dues, on the other hand, are sometimes required of each member once a year as a privilege of doing business for that year.

The Customers' Ledger is a record of the amount of business done by each customer with the gin. This ledger should by all means be a loose-leaf ledger in order that additional continuation sheets for large producers may be added. The information that will be needed on the Customers' Ledger may be brief or elaborate as the local requirements demand. At least it should show:

(1) Pounds of seed cotton ginned
(2) Weight and number of bale
(3) Total weight of seed ginned
(4) Seed "caught"
(5) Seed sold, in pounds and dollars
(6) Charge for ginning and wrapping

Other information may be desirable for the benefit of the customers, but one or several of the items listed above will be absolutely necessary to the cooperative association in paying patronage dividends. Totals of each customer's account for several of the above items may be proved for accuracy by comparing the sum of all individual accounts with a similar or control account in the Ginning Ledger. For example, pounds of seed cotton ginned, weight and amount of seed bought, charges for ginning and wrapping, etc., may be so proved for accuracy.

The Dividends Payable subsidiary ledger would be active only when dividends are declared and when paid. The portion of profits or surplus declared as dividends by the Board of Directors, whether on stock or on patronage, would be charged to the Surplus Account and credited to a Dividends Payable Account in the General Ledger, with corresponding individual credit entries to the accounts of the members or patrons in the subsidiary Dividends Payable ledger. When these dividends are paid in cash, these individual accounts in the subsidiary ledger will be charged with the amount of the dividend check issued to each, with a combined debit of the total dividends paid to the Control Dividends Payable Account in the General Ledger. The offsetting credit to the Bank Account in the General Ledger would be made through the checks issued column on the Journal.

Balances due from members on open accounts, interest or principal due on stock subscription notes or other notes of members due

should be collected before any cash dividends are paid by crediting these accounts, and charging the same amount against dividends payable up to the amount of the dividends payable to the particular member. Part of the dividends declared would thus be paid by the association to the members by offsetting accounts, notes, etc., due from members, against dividends payable. The then remaining balance of dividends payable would be liquidated by issuing checks on the general fund. After all of the above transactions the dividends payable account in the General Ledger as well as each individual account in the subsidiary ledger would be balanced.

Additions, Replacements, Sale, or Junking of Machinery, Equipment, or Buildings

When additional machinery is installed 4/ the debit journal entry is to the Machinery and Equipment Account. For example, if a sprinkler system is installed as an addition to, rather than replacing, the previous fire fighting equipment the invoice cost of the sprinkler together with incoming freight or drayage and the cost of installation including labor would be added to the Machinery and Equipment Account. If the sprinkler was bought for cash, the corresponding journal credit entry would, of course, be in the checks issued column; if bought on open account, the journal credit entry would be to Accounts Payable; and if a note was given in payment, the credit entry would be to Notes Payable.

Replacements are entered on the books in much the same way as additions with the exception that additional journal entries are necessary to remove the machine replaced from the machinery account and also from the corresponding depreciation reserve account. For example, assume that a new cleaner costing $1,200.00 (including freight, drayage and installation) is bought to replace another cleaner bought six years ago for $800.00. Assume also that the depreciation rate used on gin machinery during the past six years has been 6 2/3 percent, and that the old cleaner has no junk value. Since the old cleaner has only been in use six years, the total amount of depreciation on it that would have been taken at 6 2/3 percent per year will be only 40% of the original cost or $320.00. For this illustrative case, therefore, the machinery and equipment account would be credited with $800.00, with corresponding debit entries of $320.00 to Reserve for Depreciation on Machinery and $480.00 to Surplus. The debit surplus entry would be a loss occasioned by the fact that not enough depreciation was taken during the useful life of the cleaner to reclaim its original cost. The above entries are illustrated by the following Journal entries:

4/ ____________ 1931. Income Tax Depreciation and Obsolescence. Bulletin F., U. S. Treasury Department, Bureau of Internal Revenue.

JOURNAL

Debit		Date	Name & Explanation	Credit	
Account	Amount			Account	Amount
Depr. Res. Mach. Surplus	$320.00) 480.00)	Apr. 15	Old cleaner removed no salvage value	Mach.& Equip.	$800.00
Mach. & Equip.	1,200.00	Apr. 20	Machinery Co. new cleaner installed	Accounts Payable	1,200.00

/ /

When the above entries are posted to the General Ledger, the Machinery Account will have been debited with $1,200.00 and credited with $800.00 or a net increase of $400.00.

The debit of $480.00 to the Surplus account in the above illustration means that a loss has been taken in the junking of the old cleaner over and above the amount previously deducted as depreciation.

If the old cleaner had been used twelve years instead of six and also had been traded in on the new cleaner for $200.00, the Journal entries would be somewhat different. The old cleaner would be taken out of the machinery account by the following Journal entry:

JOURNAL

Debit		Date	Name & Explanation	Credit	
Account	Amount			Account	Amount
Res. Depr. Mach. Accts. Payable (Mach. Co.	$640.00) 200.00)	Apr. 15	Old cleaner traded in on new cleaner	Mach. & Equip. Surplus	$800.00 40.00
Mach. & Equip.	1,200.00	Apr. 20	Mach. Co. new cleaner installed	Accounts Payable	1,200.00

/ /

In this illustration the net increase in the Machinery and Equipment Account would be the same as for the first illustration. The debit to the Reserve for Depreciation or Machinery Account would, of course, be greater since twelve instead of six years use was assumed. Since the amount previously deducted as depreciation expense and set up as a reserve ($640.00) plus the trade-in or junk value of the old cleaner was more than the original cost of the old cleaner, the difference ($40.00) would be a credit to Surplus. This credit Journal entry to Surplus would mean that more depreciation was estimated during the twelve years use of the cleaner than was

actually sustained. The $40.00, therefore, is of the nature of a profit rather than a loss as was the case in the first illustration.

RECORDING TRANSACTIONS INVOLVING CUSTOMERS NOTES GIVEN AT TIME OF ORGANIZATION

A non-stock cooperative that secures its original working capital by giving the note of the associations to members in exchange for cash should keep a subsidiary ledger for these notes due to members, with one control account in the General Ledger. Such notes are liabilities in much the same way as money borrowed from a bank would be. That is, the association as a business organization owes its members as individuals.

A situation even more complicated results when all or part of the members make a promissory note to the cooperative to be used as security by the association in borrowing money. If such notes are given in payment of stock, they are merely stock subscription notes, or an asset, of the association. If, however, the cooperative is a non-stock organization, the association should in turn give a similar promissory note, or some other evidence of this obligation, to each of the members. The notes given by each of the members to the association is an asset of the association, while the note on other evidence of indebtedness given by the association to each of the members is a liability of the association. If the notes given by the members are then discounted (not necessarily sold) with some individual or bank for cash with which to buy machinery, it will be necessary to set up still another General Ledger Account, Notes Receivable Discounted, which would be credited with the amount of the notes discounted with a corresponding debit entry to Cash Received, and Discount or Interest Paid. As an example, assume that certain notes given by the members in the amount of $500.00 were discounted at the bank; the transactions would be recorded by the association as follows:

JOURNAL

Debit		Date	Name & Explanation	Credit	
Account	Amount			Account	Amount
Cash Discount and Int. Exp.	$450.00 50.00		Notes of Members Discounted for Cash	Notes Rec. Discounted	$500.00

/ /

It would appear at first that the credit entry in the above illustration should be to Notes Receivable, and it would if the note is sold outright without the association's indorsement or guarantee of payment. If, however, the association is liable as an indorsee, in case the original payor does not pay the note, this possible or contingent liability should be shown on the books by setting up the Notes Receivable Discounted Account as shown by the above illustration. The Notes Receivable Discounted Account is not a liability account such as notes payable, but rather a deduction from its corresponding asset account - Notes Receivable, when making up a financial statement in much the same way that Reserves for Depreciation are shown as deductions from corresponding Buildings or Equipment accounts. When a member pays his note to the bank or individual that holds it (it would not be the gin, though the association might receive the payment for the account of the holder of the note) the entry on the association's books would be as follows:

JOURNAL

Debit		Date	Name & Explanation	Credit	
Account	Amount			Account	Amount
Notes Rec. Discounted	$500.00		Discounted note paid by maker to holder of note	Notes Receivable	$500.00

/ /

If the note of the member is not sold or discounted but merely used as security or collateral on which to borrow money or buy machinery, no additional book entry is necessary on the books of the association since the cooperatives would still, in effect, own the note. It would, of course, be desirable to make a memorandum on the notes receivable ledger that certain notes owed to the gin by the members have been deposited with a certain bank or firm as security. If a member should pay his note while it is out as security for a note by the gin, the cash received should, of course, be remitted to the firm holding the note as collateral.

ADJUSTING ENTRIES PRIOR TO CLOSING THE BOOKS

The preparation of monthly reports does not necessitate closing the books at the end of each month. It is necessary, however, to close the books at the end of each business year in order that certain adjusting entries may be made and thereby show the profit or loss that has been made during the year.

For various reasons the books should be closed on the same date each year. The closing date selected should be late enough in the ginning season for all of the crop to have been ginned each year by that date. March 31 has been selected as the closing date by managers in the central area of the cotton belt as practically all of the previous season's ginning has usually been finished by that date.

The adjusting entries that will need to be made prior to making the closing entries are (1) inventories of products and supplies on hand that have not been sold or used during the past season, and (2) certain accrued or prepaid items of expense. The recording of these items differs somewhat from the ordinary business transactions in that the information for making these adjusting entries does not originate on the original records, such as scale tickets, check stubs, etc. in the same way that ordinary transactions originate. That is, the inventories must be determined by inspection and valuation; the accrued and prepaid expense items estimated and calculated, and then entered on the Journal with both a debit and credit entry to the proper accounts for each adjusting entry being made.

The inventory of products and unused supplies on hand should be by actual count and should be valued at cost price or present market price, whichever is lower. As an illustration suppose the following inventory has been taken:

5 bales of cotton 2500 lbs @ 10¢	$250.00
2 tons cottonseed @ $35.00	70.00
3 tons fuel coal @ 10.00	30.00
50 pattern B & T @ .70	35.00

These inventories would be entered on the Journal as follows:

JOURNAL

Sundry Debit		Date	Name	Expl.	Sundry Credit	
Expl.	Amt.				Expl.	Amt.
Bale Cotton Inventory	250.00		Closing	Inventory 53/C	Cotton Purchased	250.00
Cotton-seed Inventory	70.00		Closing	Inventory 2 ton C/S	Cotton-seed Purchased	70.00
Fuel Coal Inventory	30.00		Closing	Inventory 3 tons Coal	Fuel Coal Expense	30.00✓✓
B & T Inventory	35.00		Closing	Inventory 70 Pat. B & T	B & T Purchases	35.00

//

Each of the above entries would then be posted to designated accounts in the General Ledger. Special attention is called to the two check marks (✓✓) beside the credit to Fuel Coal expense. These two postings will be necessary if a control, or total expense account, in addition to each of the individual accounts is carried in the General Ledger. The reason similar double posting appeared not to have been used when items were regularly charged (or debited) to an expense account is that "Expenses Debit" has a separate column from which each item of expense was posted to individual expense accounts, as well as the total of the column posted monthly to the Expense Control Account.

Adjustments are necessary for certain expense accounts at least once each business year to charge the correct amount of these items of expense to each year's business.

Any amount of interest due and unpaid on mortgages or notes payable at the end of each business year should be shown as an expense for that year just as if it was paid. The corresponding credit entry would be to the liability account, Accrued Interest Payable, and in effect is very similar to any other unpaid account. Taxes, wages, salaries, etc. due and unpaid would be handled in a similar manner. When a check is written within the succeeding year to pay that portion of any expense account shown as accrued (due and unpaid) at the time the books were closed, the charges or debit would then be to this accrued or liability account rather than to the particular expense account.

As an illustration, assume that the following accrued expenses due and unpaid at the end of the year, are determined:

Interest to date due and unpaid	$600.00
Last half of taxes due and unpaid	200.00
Manager's salary due and unpaid	150.00

These items would be entered on the Journal as follows:

JOURNAL

Expense Dr.		Date	Name	Credit	
Acct.	Amt.			Acct.	Amt.
Interest	600.00	Mar. 31	Interest due and unpaid to date	Accrued Exp. Interest	600.00
Taxes	200.00	Mar. 31	Taxes due and unpaid	Accrued Exp. Taxes	200.00
Mgr's. Salary	150.00	Mar. 31	Manager's salary unpaid	Accrued Exp. Mgr's. Salary	150.00

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Postings from the Journal to the ledger would be done in very much the same manner as any other regular journal entry.

Certain other items of expense, such as insurance premiums, are frequently paid several months in advance at the time the books are closed. In such cases those expense accounts have been charged with more than a year's business. The amount of such a prepaid expense is an asset at the time the books are closed, and may be accordingly adjusted by charging the proper asset account under Prepaid expenses with a corresponding credit to the particular expense account that is paid beyond the date the books are closed.

For illustration, assume that the premium on an annual insurance policy costing $600.00 is paid for four months beyond the date the books are closed. This would mean that 1/3 (4/12) of that premium, or $200.00, is properly charged to the following rather than the present year's business. This entry would be entered on the Journal as follows:

JOURNAL

Debit		Date	Name	Credit	
Acct.	Amt.			Acct.	Amt.
Prepaid Exp. Insurance	200.00		Prepaid Insurance	Insurance Expense	200.00

//

From a practical standpoint, if it is the customary practice of an association to pay taxes and insurance premiums each year as they come due, it hardly seems worth while to enter these two items on the books as accrued or prepaid, as the case may be, even at the end of the year. The final result is practically the same if they are charged as an expense in the year paid providing, of course, they are paid in full some time within each twelve months operations. Very little is to be gained in setting up a two or three months accrued taxes year after year at the time the books are closed when identically the same result would be obtained by charging the taxes directly to the expense account as paid. The same thing is true from a practical standpoint regarding prepaid insurance.

Depreciation is perhaps the most difficult adjusting entry to make since it is at best only an estimation. The annual depreciation rate should be determined by the expected life of each asset being depreciated. 5/ That is, if new gin machinery may be expected to last 20 years the annual depreciation should be 5% of the original cost; if the expected life is only ten years, the annual depreciation should be 10% of the original cost. Likewise, if second-hand gin machinery is bought that is expected to last only 5 years, the proper annual rate would be 20% of the cost price. In deciding on the proper rate to be used for buildings, gin machinery, office fixtures, etc., the deciding principle in each case should be to use an accrual rate, for each asset subject to depreciation, that will build up a depreciation reserve account equal to the cost of the asset by the time the asset is worn out.

The corresponding credit entry to the depreciation charged as an expense each year would be to a Reserve for Depreciation Account for each asset depreciated, rather than to the credit side of the asset account. For example, the buildings account should always show the original cost of the building. The amount charged (debited) as an expense each year for estimated depreciation on buildings would be credited to the account, Reserve for Depreciation on buildings, rather than to the credit column of the building account in the General Ledger. As an illustration, assume that the following amounts of depreciation have been calculated using the original cost values and the proper rate:

Gin Buildings	$300.00
Machinery & Equipment	1,200.00
Office Furniture & Fixtures	30.00
Truck	150.00
Total	

5/ 1931 Depreciation Studies, Treasury Department, Bureau of Internal Revenue.

The above figures would be entered on the Journal as follows:

JOURNAL

General Debit		Expense Debit	Date	Name & Expl.	General Credits	
Expl.	Amt.				Expl.	Amt.
		300.00	Mar. 31	Depreciation on Buildings	Res. for Depr. Build.	300.00
		1,200.00		Depreciation on Machinery	Res. for Depr. Mach.	1,200.00
		30.00		Depreciation on Office F. & F.	Res. for Dep. F. & F.	30.00
		150.00		Depreciation on Truck	Res. for Depr. Truck	150.00

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In many instances the rates of depreciation used by those auditing for Cooperative gins have been too high. That is, the reserves for depreciation against the fixed asset accounts equals the cost of the assets several years before the asset is worn out. Obviously, after the book value of an asset is depreciated down to zero no more depreciation can logically be taken as an operating cost.

No fixed rate of depreciation may be definitely said to be the only accurate rate to be used in depreciating gin machinery, as the life of gin machinery like any other machinery depends on too many variable factors. Volume ginned, variety of cotton ginned, local method of harvesting, the policy of repairing, the natural ability of the ginner, and many other unmeasurable factors determine the life of gin machinery and, therefore, the proper rate of depreciation. The same things are true in part at least with regard to buildings, office fixtures, and other assets.

The depreciation charged each year should not be entered as a credit to the account of the asset being depreciated, but should be credited annually to an associated Depreciation Reserve Account. That is, the buildings accounts should always show the original cost.

CLOSING THE BOOKS

After the adjusting entries involving inventories, depreciation accrued expenses, and prepaid expenses have been made, the revenue and expense accounts are ready to be closed for the season.

It is possible to close the balance of each trading and expense account direct to the Profit and Loss Account and determine the net

profit or loss for the year. However, to show the loss or gain for each of the major departments such as ginning proper, cotton, cottonseed, other sales, etc., some preliminary entries are necessary to close each department separately.

In order to determine the cost of cottonseed sold, for example, it will first be necessary to close the expense account (or accounts) chargeable to cottonseed to the Cottonseed Purchases Account. If only one expense account is kept for cottonseed and the balance in that account is, for example, $700.00, the Journal entry would be as follows:

JOURNAL

Debits		Date	Name and Explanation	Credit	
Acct.	Amt.			Acct.	Amt.
Cotton Seed Purchases	700.00		Seed Expenses	C/S Expense	700.00

//

Then after the expense of handling cotton-seed is posted to the cotton-seed purchase account, the balance remaining in that account is entered through the Journal and posted to the Cotton-Seed Sales Account. Assuming a debit balance in the Cotton-Seed Purchase Account after charging that account with the hauling and any other expenses of $3,000.00, the purchase account would be transferred to the sales account by the following Journal entry:

JOURNAL

Debit		Date	Name and Explanation	Credit	
Acct.	Amt.			Acct.	Amt.
C/S Sales	3,000.00		Bal. of C/S Purchase Acct.	C/S Pur.	3,000.00

//

When this Journal entry has been posted to the cotton-seed sales account, the remaining balance in that account will be the profit (if a credit balance) or loss (if a debit balance) on cotton-seed sold. Assuming that the Cotton-Seed Sales Account now has a credit balance of $2,000.00, this balance would be posted or transferred to the Profit and Loss Account by the following Journal entry:

JOURNAL

Debit		Date	Name and Explanation	Credit	
Acct.	Amt.			Acct.	Amt.
C/S Sales Account	2,000.00	Mar. 31	Bal. of C/S Sales Acct.	P & L Account	2,000.00

//

The profit or loss on the other trading accounts would be determined in a similar manner as explained for cotton-seed and posted to the Profit and Loss Account. The profit or loss on ginning proper would be handled very much the same as for the trading accounts. If it is desired to handle the purchase and sale of bagging and ties as separate from ginning revenue, the profit or loss on ginning proper would be ascertained by crediting all expense accounts chargeable to ginning with a corresponding debit to Ginning Revenue, and the transfer of the resulting balance in that account to the Profit and Loss Account. On the other hand if it is desired to show in one total the combined profit (or loss) on Ginning and Wrapping and B & T Account showing the cost, freight and drayage, has been handled as a General Ledger as separate from the expense accounts, the total cost (debit balance) of the B & T Account would be credited to that account with a corresponding credit to the Ginning and Wrapping (revenue) Account. Each of the expense accounts chargeable to ginning proper would then be balanced out by a credit entry to each, with a corresponding debit to "Ginning and Wrapping". The balance then remaining in this account would then be transferred to the Profit and Loss Account.

The Miscellaneous Income Account, if such an account is active on your books, would be closed into the Profit and Loss Account by debiting Miscellaneous Income and crediting Profit and Loss.

When this stage in the closing transactions have been reached, all of the revenue and expense accounts will be balanced out leaving only the asset and liability accounts (the Balance Sheet items) and the Profit and Loss Account with a balance. This balance in the Profit and Loss Account would then be transferred to the Surplus Account by debiting Profit and Loss and crediting Surplus.

It is at this time that the Profit and Loss Statement for the season just closed, and the Financial Statement as of the end of the business year is made out, for the information of the Board of Directors. It then becomes the duty of the Board of Directors to give the bookkeeper instructions for the disposition of the undivided profits (if any) as shown by the Surplus Account. If state laws require that 10% of the net earning be set aside in a special reserve fund, or if the Board desires to make a similar reservation of profits even when not required by state laws, this reserve would then be set aside by debiting Surplus and crediting "Special Reserve for____________". Other necessary reserves would likewise be set aside.

The balance then remaining in the Surplus Account would then be authorized to be paid to the stockholders, members, or patrons depending on the dividend policy of the association. As an illustration, assume that $5,000.00 is available for stock and patronage dividends after all necessary reserves from profits have been set aside. Assume also that the Board desires to pay 8% dividends on $15,000.00 capital stock or $1,200.00 and distribute the remaining $3,800.00 to the patrons at the rate of $1.00 per bale for 3,800 bales ginned. The following Journal entries would then be made:

JOURNAL

Debits		Date	Name and Explanation	Credits	
Acct.	Amt.			Acct.	Amt.
P & L Account	5,000.00		Bal. Surplus Acct. to Dividends Payable	Dividends Payable	5,000.00
		Name	Credits to account of each member in Dividends Ledger		
			Amt. Stock Div.	Amt. of Pat. Div.	
		--	$ 0.00	$ 0.00	
			0.00	0.00	
			0.00	0.00	
			0.00	0.00	
				0.00	

//

From this Journal entry the total or $5,000.00 would be posted to the debit of the Surplus Account and to the credit of the Dividends Payable Account in the General Ledger. In addition the amounts of both the stock and the patronage indicated on the Journal for each member would be posted to the credit of each member in the Subsidiary Dividend Ledger. A separate posting would be made for the amount of the stock and the patronage dividend. If these dividends are later paid in cash, the amount of the check issued to the member may be made in either one or two checks. The total amount of the dividend check both for stock and patronage dividends would be debited to the Dividends Payable Account with a corresponding credit to checks issued (Bank Account). The amount of each individual member's dividend account in the Subsidiary Dividend Ledger would be debited or charged with the amount of the check or checks issued to each.

The next step is to make out the reports for the annual meeting of the members. This report should at least contain a Profit and Loss Statement for the past season, and a Balance Sheet (Statement of Assets and Liabilities) as of the end of the business year. Forms III and IV are given as suggestions for the presentation of these reports. Other

subsidiary reports will be necessary showing (1) The reconciliation of the Bank Statement (2) A list of accounts receivable (3) A list of notes receivable (4) A list of notes payable, and similar itemized lists of practically every control or total account shown in the assets or liabilities for which subsidiary ledgers are kept.

It may be desirable to call in the auditor to make all the book entries from the time the first adjusting entries are made. On the other hand the auditor may not be called in until after the books are closed. It will usually be found to be desirable to have the auditor's assistance with all of the closing entries. If it is at all possible, however, all bookkeeping including the monthly postings to the General Ledger, as well as the adjusting and closing entries should be made at the gin office. A General Ledger that is kept by some one away from the gin office or even in a distant town is of very little value to a cooperative organization other than that of making out necessary State and Federal reports.

6/ 7/

RELATIONSHIP OF PROFITS, RESERVES, SURPLUS, AND DIVIDENDS

The payment of dividends on capital stock at a fair rate (8% or less) is somewhat similar to interest paid on borrowed money. From the standpoint of Federal Income tax, however, interest paid on indebtedness is deductable in determining the taxable income, while dividends (interest) paid on capital stock is not deductable. It is entirely fair that a cooperative association pay a reasonable rate of interest on the capital invested in stock or membership. "It tends to produce equality among the shareholders or members because it eliminates the differences caused by the fact that some members utilize the association less than others or have contributed more than others to its establishment." 8/

The amount of cash which a cooperative association has on deposit in a bank is not necessarily an indication of its ability or right to pay dividends. If no surplus earnings (undivided profits) are available, then a dividend should not be paid. Legally, dividends are declared only out of profits or surplus. Surplus does not necessarily mean cash on hand.

The net income is determined each year after all actual cash expenses and certain other accrued and estimated expenses are deducted from gross income. Expenses such as accrued interest and taxes due and unpaid at the end of each year may and should be charged as expenses. Such expenses, however, are not paid in cash that year, even though they may be paid during the following year.

The amount of depreciation expense charged off each year is not actually paid in cash. It is only an estimate of the amount of wear that has taken place each year in the buildings and equipment. Depreciation expense is not paid in cash until the equipment being depreciated is replaced by new equipment.

Federal and/or state income taxes should likewise be paid or allowed for before dividends are declared unless the cooperative has obtained a specific letter exempting them from the necessity of filing an income tax return.

6/ For a more complete discussion of Profits see; Hulbert, L. S., 1929. Legal Phases of Cooperative Marketing, U. S. D. A., Bul. 1106, Page 102.

7/ For a more complete discussion of Surplus see: Kester, Roy B., 1925. Accounting Theory and Practice, Vol. 2, Chapters XXV and XXVI.

8/ Hulbert, L. S., 1929. Legal Phases of Cooperative Marketing, U. S. D. A., Bul. 1106, Page 3.

Therefore, if a cooperative has a gross income of $5,000.00 for a certain year after all cash expenses have been deducted, and then in addition $1,500.00 for depreciation and $500.00 for accrued interest is also deducted from the $5,000, the net income will be only $3,000.00 even though the association may have the $5,000.00 cash deposited in the bank. The $3,000.00 then is net income which may be available for dividends. It would not be considered a good business policy, however, to pay even all of the $3,000.00 out in dividends. A portion of each year's net income should be set aside as a reserve against the possibility of losses occurring in future years. Short cotton crops due to drought or hail frequently cause a cotton gin to make less than enough to pay even taxes and insurance premiums.

The cooperative laws of several states specifically require that a certain proportion, usually ten per cent, of the net income of each year be set aside until a fund equal to fifty per cent or more of the outstanding capital stock is accumulated. The purpose of these special reserves (in addition to reserves for depreciation) is to insure financial stability during years of low profits, or years when actual losses are sustained. Some such reserves should by all means be set aside out of each year's net income before any dividends are declared, even though not specifically required by state law.

To continue with the same illustration used above, assume that 10 per cent of the $3,000.00 (or $300.00) was so set aside. There would then remain $2,700.00 available for dividends. The cooperative association in this assumed case, however, would have $5000.00, and would still have $2,300.00 in cash after the dividends were paid. It would frequently occur that an amount of cash less than $2,700.00 would be needed to pay these dividends. If any of the members (or other patrons sharing in the dividends) owed the association any past due accounts, notes, stock subscription, or interest on notes, at the time a cash dividend is declared, it would be a good business policy on the part of the association, and equitable to the member (or patrons), to deduct the amounts of these past due obligations of any member (or patron) up to the amount of his cash dividend. That is, credit the account or note which the member owes, and charge his dividend account rather than pay him in cash. In the case of a non-member, or a member who has not paid for a share of stock or membership in full, the Bureau of Internal Revenue recognizes these credits on a share of stock or a membership as patronage dividends. 9/

9/ Treas. Dept. 1931 Exemption of Farmers and other Cooperative Marketing and Purchasing Associations. p. 4, I T - Mimeographed, call No. 3085, R.A. No. 592.

It may on the other hand occur that a cooperative association has a legal right and perhaps is desirous of paying dividends and at the same time not have any cash at all on hand. To use the same illustration as above, assume that the entire $5000.00 at the end of the year was used to pay off a mortgage on the plant. In this case the cooperative association should make some disposition of this $2,700.00. Members Equity (Surplus) to recognize the fact that it belongs to the members (or patrons) is proportion, to the amount of patronage which each one has contributed.

The Board of Directors could declare a patronage dividend and specify that it is to be paid in capital stock. If any of the authorized common stock is unissued, it may be used in paying each member up to the amount of the stock each is permitted to own as provided for by state law. Some associations have successfully used preferred stock in lieu of cash for paying dividends during the period that earnings are being applied on indebtedness. Generally, preferred stock has no voting rights, and is subject to retirement at the will of the association when paid in cash. In paying stock dividends, as in paying cash dividends, it will be desirable and equitable to collect any past due accounts from members before the shares of stock are issued. That is reduce the amount of stock that might be issued to any one member by the amount of past due obligations which that member has to the association.

In case no cash was available to pay dividends, and it was not desired to issue any additional common or preferred stock, this $2,700.00 surplus earnings could be transferred to a "Members' Equity" account by debiting Surplus and crediting "Members' Equity" in General Ledger account, and at the same time credit each member in a subsidiary Members' Equity Ledger with his proportionate part based on patronage.

The purpose of setting up a "Members' Equity" account in the General Ledger with its associated subsidiary ledger is to recognize ownership of these surplus earnings in case of liquidation. The association need not necessarily even intend to pay these accounts in cash or in stock. The board of directors could, however, pay all or part of this equity in cash when funds become available from other reserves; or could pay them in stock at some future time. To illustrate how funds could become available to pay these membership equity credits, assume the following conditions:

(1) An association issued $10,000.00 in capital stock for cash.

(2) The association buys a gin plant for $14,000.00 paying the $10,000.00 cash and giving a $4,000.00 mortgage due in annual installments of $1,000.00.

(3) The association operates for four years and has a net income of $1,000.00 each year after paying interest, and after allowing for depreciation in the amount of $1,000.00 per year.

(4) The association sets aside 10 per cent of this $1,000.00 net income each year, in a Special Reserve.

(5) No operating or capital losses are sustained, and no other assets such as inventories or accounts are accumulated during the four years.

At the end of the four years the following situation would result.

(1) Of the gross income $4,000.00 would have been reserved as depreciation.

(2) The $1,000.00 annual net income less the 10 per cent special reserve each year would have resulted in $3,600.00 having been credited to the Member's Equity account.

(3) The $4,000.00 mortgage would have been paid.

(4) The 10% reserve fund would have increased to $400.00.

(5) The total amount of cash earnings realized during these four years would have been $4000.00.

(6) This $4000.00 income plus the $4000.00 depreciation reserve would account for $8000.00 in cash coming into the business.

(7) The payment of the $4000.00 mortgage would have resulted in that much cash having been paid out, leaving $4000.00 in cash.

(8) The $3600.00 members equity could then be paid and still leave $400.00 in cash, which would be the credit balance in the 10% Reserve Account.

(9) At the end of the fourth year the plant would have a book value of $10,000.00 (original cost less depreciation or $14,000.00 less $4,000.00)

(10) The original $10,000.00 capital stock would be represented in $10,400 of assets (the book value of the plant at $10,000 plus the $400.00 cash) and the Surplus or undivided profits would be $400.00 or the credit balance of the 10% Reserve Fund.

If a Members' Equity Account is used, when for any reason it is not desirable to distribute surplus earnings either in cash or in stock, it would not be logical or equitable to collect past due accounts, notes, stock subscription notes, accrued interest, or other obligations of a member by crediting that obligation and charging a corresponding amount to his "Equity" account. In effect, such a procedure would be the same as paying that member a dividend without paying a similar dividend to other members. Such a policy would not only be inequitable, but would tend to encourage slow payments of obligations as a means of obtaining the cancellation of the same. From the standpoint of new members, such a practice if in accord with the by-laws of the association, is justifiable until one share of stock or a membership is acquired.

One of the purposes of setting aside a portion of the net income each year in a Special Reserve, such as the 10 per cent Reserve Fund, is to retain a part of the income in the business as operating capital. Another purpose of such Reserves is to offset possible operating or capital losses. If an operating loss is sustained, it means that the Profit and Loss account will have a debit balance. If the 10 per cent Reserve account has a credit balance, for example, of $2,000.00 and an operating loss of $1,800.00 is sustained, this loss could be charged to the 10 per cent Reserve Account. The journal entry necessary to close the Profit and Loss account would be to debit the 10 per cent Reserve Account and credit the Profit and Loss Account. This would still leave a $200.00 credit balance in the 10 per cent Reserve Account, in the above illustration.

It would be entirely logical and equitable in case a Members' Equity Account has been set up to charge this loss to the debit of this Member's Equity Account in the General Ledger and at the same time prorate the loss by debiting the members (or patrons) individual equity accounts in the corresponding subsidiary ledger. If a Members' Equity Account is used to recognize ownership of the Surplus, it should be remembered that this account does not represent a declared liability of the cooperative, as does a dividend

formally declared. A Members' Equity Account is merely an evidence of ownership of undivided earnings. The payment of these equities would depend entirely on the will of the Board, and would not be subject to payment on demand on the part of any member. Losses, therefore, could be logically and equitably prorated to the individual equity account on the basis of patronage up to the amount of the credit balance in any individual equity account. The excess of any members share of an operating loss (on the basis of patronage contributed) above the amount of the balance previously credited to his equity account, would necessarily have to be charged to some Special Reserve, such as a 10 per cent Reserve, or to a Deficit account.

If no Special Reserve Account, Member's' Equity Account, or any other form of Surplus has been set aside out of previous earning, and an operating on capital loss is sustained, it will mean that the original capital invested (the capital stock) is impaired by the amount of the loss.

In case of non-stock organizations the initial membership fee, as differentiated from the annual dues, should be shown as a capital liability in much the same way that outstanding stock is shown for a cooperative having capital stock. Any additional capital surplus should likewise be set up year by year to the equity account of the members (or patrons) in order that the ownership of this surplus may be ascertained in case of sale or liquidation. If the whole amount is left in surplus as undivided profits and the records for the past years are incomplete, lost, or destroyed there would not be any satisfactory means of determining how much equity each member had in the assets of the cooperative.

If the total of all paid in membership fees is considerably less than the assets of the cooperative it means that there is a sizeable surplus account, which, without evidence to the contrary would belong to each member equally. This surplus, however, is the result of net income from previous years' operations that were not distributed as dividends, and from the standpoint of patronage does not belong equally to all of the members. That is, each member's rightful share in this surplus is not the same. It should be borne in mind that if there is no provision in the charter, by-laws, or agreements of an association with reference to the manner in which assets of the association may be divided, that each member, in the case of a non-stock organization, is entitled to be treated the same as every other member. This illustrates the importance of having the "interests" of each member of such an association evidenced by proper papers.

If dividends in excess of undivided profits (Surplus, or Members' Equity) are paid as patronage, or on capital stock, it means that the original capital, or the original investment of the members in the cooperative, is being returned to the members in addition to earnings. This original investment (the capital stock) of the members in a cooperative must not be paid back to the members as dividends if the association is to continue, and in fact it is a rule of law that such a dividend cannot be legally paid except on liquidation or on permission from the proper state authority.

If a group of farmers subscribe to $25,000.00 capital stock of a cooperative gin and pay for this stock either in cash, or with part cash and the balance in promissory notes, and no operating or capital losses are sustained, the cooperative association, as separate from its members, should always have at least $25,000.00 book value of some kind of assets, whether it be buildings, machinery, inventories, notes or accounts receivable, investments, or cash. For example, suppose that a cooperative gin issues $25,000.00 capital stock and buys a complete gin for that amount. Assume further, that this cooperative operates for fifteen years and does not have any losses but pays out all of its net income in dividends. Assume also that $1,666.67 was estimated each year as depreciation and used in the same way as any other expense in determining net income. Then, at the end of fifteen years, assuming that no accounts, inventories, or other assets had been accumulated, the association would have $25,000.00 in cash. That is, $1,666.67 of income would have been reserved each year, and not paid out in dividends, for the replacement of the gin plant. Depreciation Reserves, or any other reserves, do not mean that the association has parted with that part of the income represented by these reserves, but on the contrary means that this much of the income is retained in the business, rather than paid out in dividends, and is used by the cooperative in much the same way that the money originally received from the sale of capital stock was used.

Depreciation reserves, reserves for losses on doubtful accounts or notes, etc., differ from reserves such as a 10 percent reserve of the annual income, or educational reserves, in that reserves for depreciation and reserves for loss on doubtful accounts are used as an expense in determining net income, while special reserves out of income such as a 10 percent reserve fund or a 5 percent educational fund is calculated by setting aside those percentages of the net income before determining the amount that is to be returned to the members in dividends.

APPENDIX

SUGGESTED FORMS

FORM I

1		2	3	4		5	6		7				8		9		10	11	
SUNDRY DEBIT		BANK DEPOSIT	CHARGE ACCT.	EXPENSE DEBIT		CASH RECEIPTS	COAL, FEED, ETC. BOUGHT		SEED COTTON AND BALE COTTON BOUGHT				COTTON SEED BOUGHT		DATE		NAME	EXPLANATION	LINE
ACCT.	AMOUNT	AMOUNT	AMOUNT	ACCT. OR NO.	AMOUNT	AMOUNT	QUANTITY	AMOUNT	LBS. S/C	NO. B/C	WT. B/C	AMOUNT	WT.	AMT.					
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FORM I (CONTINUED)

LINE	12		13		14	15		16	17	18			19		20			21	
	BALE		S/C GINNED		B. & T. AND GINNING	CHECKS ISSUED		CASH CREDIT	COLLECTED ON ACCT.	BALE COTTON SOLD			COTTON SEED SOLD		COAL, FEED, ETC. SOLD			SUNDRY CREDIT	
	NO.	WT.	LBS. PICKED	LBS. SNAPS	AMOUNT	CHECK NO.	AMOUNT	AMOUNT	AMOUNT	NO. BALES	LBS.	AMOUNT	LBS.	AMOUNT	ITEM	QUANTITY	AMOUNT	ACCOUNT	AMOUNT
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FORM 2

ANY STANDARD LEDGER SHEET HAVING A DEBIT, A CREDIT, AND A BALANCE COLUMN.

It will probably be found convenient and also economical if the same size ledger sheet is used for each of the subsidiary ledgers (except the Customers Ledger) that is used for the General Ledger.

FORM 3

(Name)____________________ Gin Company, ____________________ (Address)

PROFIT AND LOSS STATEMENT

From ______________ to ______________

		Quantity	Dollars	
BALE COTTON & SEED COTTON				
1. Sales to date	No.B/C		$	
2. Purchases & Beginning Inventory	No.B/C			
3. Present Inventory	No.B/C			
4. Cost of Cotton Sold	(2-3)No.B/C			
5. Gross Profit	(1-4)			
6. Expenses of Handling Cotton				
7. Net Profit on Cotton	(5-6)			$
COTTON SEED				
8. Sales	Lbs.			
9. Purchases & Beginning Inventory	Lbs.			
10. Present Inventory	Lbs.			
11. Cost of Cotton Seed Sold	(9-10)Lbs.			
12. Gross Profit on Cotton Seed	(8-11)Lbs.			
13. Expenses of Handling Cotton Seed				
14. Net Profit on Cotton Seed	(12-13)			
COAL, FEED, SUPPLIES, ETC.				
15. Sales				
16. Purchases & Beginning Inventory				
17. Present Inventory				
18. Cost of Sales	(16-17)			
19. Gross Profit	(15-18)			
20. Handling Expenses				
21. Net Profit	(19-20)			
22. MISCELLANEOUS INCOME				
GINNING & WRAPPING				
23. Ginning Tolls & B and T, Lbs.S/C____	No.B/C			
24. Purchases B & T & Begin. Invtry.	Pat.			
25. Present Inventory Bagging & Ties	Pat.			
26. Cost of Bagging & Ties Used	(24-25)Pat.			
27. Gross Income, Ginning & Wrapping	(23-26)			
EXPENSES				
28. Fuel, Power, Light, Water				
29. Wages				
30. Repair, Labor				
31. Repair, Material				
32. Supplies and Tools				
33. Lub. Oil and Grease				
34. Manager's Salary				
35. Manager's Expense				
36. Directors Fees				
37. Office Salaries				
38. Office Supplies and Postage				
39. Telephone and Telegraph				
40. Insurance and Bond Premiums				
41. Auditing and Legal				
42. Advertising and Dues				
43. Drayage - Gin only				
44. Taxes (except Federal Income)				
45. Loss on Bad Accounts				
46. Depreciation				
47. Interest and Exchange				
48. TOTAL EXPENSE				
49. Income Ginning and Wrapping	(27-48)			
50. NET INCOME (7 + 14 + 21 + 22 + 48)				

FORM 4

_______________ Gin Company, _______________ Oklahoma

BALANCE SHEET

As of _______________, 193__.

ASSETS

Current Assets

101. Cash in Office		$	
102. Cash in Bank			
103. Accounts Receivable			
104. Notes Receivable			
105. Inventory - (Stocks on hand)			
Total Current Assets			$

Other Assets

106. Stock Subscriptions Receivable		$	
107. Investments			
108. Meter Deposits			
Total Other Assets			$

Fixed Assets

126. Land		$	
127. Buildings	$		
128. Less Reserve for Depreciation			
129. Machinery and Equipment	$		
130. Less Reserve for Depreciation			
131. Furniture and Fixtures	$		
132. Less Reserve for Depreciation			
133. Truck or Auto	$		
134. Less Reserve for Depreciation			
135. Other Fixed Assets	$		
136. Less Reserve for Depreciation			
Total Fixed Assets			$
137. Prepaid Expenses (Ins., Etc.)			
TOTAL ASSETS			$

LIABILITIES AND CAPITAL

Current Liabilities

151. Accounts Payable		$	
152. Notes Payable (short-time)			
153. Dividends Payable			
Total Current Liabilities			$

Accrued Expenses

154. Wages and salaries due and unpaid		$	
155. Interest due and unpaid			
156. Taxes due and unpaid			
Total Accrued Expenses			$

Fixed Liabilities

176. Mortgages Payable			$

Capital or Net Worth

177. Capital Stock Issued	$		
178. Capital Stock Subscribed		$	
179. Ten Percent Reserve Fund	$		
180. Surplus (or deficit)			
Total Capital or Net Worth			$
TOTAL LIABILITIES and CAPITAL			$

Reconciliation of Surplus

Balance - (Preceding Balance Sheet)		$
ADD		
Net Profit (P & L)	$	
Other		
DEDUCTIONS		
Net Loss	$	
Federal Income tax paid		
Dividends on Capital Stock @____%		
Patronage Dividends @____ per____		
Balance - (Current Balance Sheet)		$